

The Auditor-General  
Audit Report No.27 2011–12  
Performance Audit

# **Establishment, Implementation and Administration of the Bike Paths Component of the Local Jobs Stream of the Jobs Fund**

**Department of Regional Australia, Local Government,  
Arts and Sport  
Department of Infrastructure and Transport**

Australian National Audit Office

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Canberra ACT  
20 March 2012

Dear Mr President  
Dear Mr Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Regional Australia, Local Government, Arts and Sport and the Department of Infrastructure and Transport 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 *Establishment, Implementation and Administration of the Bike Paths Component of the Local Jobs Stream of the Jobs 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

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

Ian McPhee  
Auditor-General

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

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# Abbreviations and Glossary

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ANAO	Australian National Audit Office
ANAO's Better Practice Guide	ANAO Better Practice Guide, <i>Implementing Better Practice Grants Administration</i> , June 2010
CGGs	Commonwealth Grant Guidelines
DEEWR	Department of Education, Employment and Workplace Relations
DITRDLG	The former Department of Infrastructure, Transport, Regional Development and Local Government. Under the machinery of government changes that took effect on 14 September 2010, this department became the Department of Infrastructure and Transport (Infrastructure).
DSEWPaC	Department of Sustainability, Environment, Water, Population and Communities. Until September 2010, the quarantined heritage component of the Local Jobs stream was administered by the then Department of the Environment, Water, Heritage and the Arts. Following the Administrative Arrangements Order of 14 September 2010, the department became DSEWPaC.
DTEI	South Australian Department of Transport, Energy and Infrastructure
Finance	Department of Finance and Deregulation
FMA Act	<i>Financial Management and Accountability Act 1997</i>
FMA Regulations	<i>Financial Management and Accountability Regulations 1997</i>
IEP	Infrastructure Employment Projects stream of the Jobs Fund
Infrastructure	Department of Infrastructure and Transport (formerly the Department of Infrastructure, Transport, Regional Development and Local Government).
IVA	Independent Viability Assessment

Keep Australia Working	In June 2009, the then Deputy Prime Minister asked the then Minister for Employment Participation and the then Parliamentary Secretary for Employment to develop a whole of government strategy to build on existing initiatives to support Australian jobs. The strategy was entitled 'Keep Australia Working'. An interim <i>Keep Australia Working</i> report was released in July 2009 and the final report was released in October 2009.
LEC	Local Employment Coordinator
RDAF	Regional Development Australia Fund
Regional Australia	Department of Regional Australia, Local Government, Arts and Sport (formerly the Department of Regional Australia, Regional Development and Local Government).
Regional Matrix	A Regional Matrix prepared by DEEWR in 2009 based on analysis of a range of labour market indicators in order to identify and provide assistance to those regions across Australia with labour markets which were likely to experience disadvantage and deterioration as a result of the global recession. The Matrix was used to identify the 20 Priority Employment Areas agreed by government as the areas with labour markets that were most likely to be affected by the global financial crisis, and provide comparative ratings of other areas around the country in terms of employment risk measures (with regions being rated as either strong, average, below average or poor in terms of employment vulnerability).



Responsible department	This term refers to the department responsible for the administration of the quarantined bike paths component of the Local Jobs stream, as the department was variously constituted at relevant points in time. Up until 14 September 2010, the then Department of Infrastructure, Transport, Regional Development and Local Government (DITRD LG) administered the bike paths component. This function was transferred in full to become the responsibility of the newly created Department of Regional Australia, Regional Development and Local Government through the machinery of government changes which took effect on 14 September 2010. In December 2011, this department became the Department of Regional Australia, Local Government, Arts and Sport (Regional Australia).
Responsible Minister	This term refers to the Minister responsible for the administration of the bike paths component of the Local Jobs stream at relevant points in time. The then Minister for Infrastructure, Transport, Regional Development and Local Government was responsible for the bike paths component until September 2010, including funding decisions made in October 2009 and December 2009. From September 2010, administration of approved bike path component projects became the responsibility of the Minister for Regional Australia, Regional Development and Local Government.
RLCIP	Regional and Local Community Infrastructure Program
SPBC	Strategic Priorities and Budget Committee of Cabinet
Strategic Projects component	Strategic Projects component of the Regional and Local Community Infrastructure Program.



# **Summary and Recommendations**



# Summary

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## Introduction

1. The \$650 million Jobs Fund was one of the fiscal measures implemented by the Government in 2009 to support employment and economic recovery in response to the global financial crisis. It was announced on 5 April 2009 as part of a Jobs and Training Compact with Australians affected by the global recession that promised training, support and local initiatives to help them get back to work.<sup>1</sup> The Jobs Fund comprised a \$150 million Infrastructure Employment Projects (IEP) stream<sup>2</sup>, a \$200 million Get Communities Working stream and a \$300 million Local Jobs stream.

2. The Local Jobs stream related to the delivery of commitments made to the Australian Greens in the context of securing passage of the legislation relating to the Nation Building and Jobs Plan in February 2009. Of the \$300 million announced as being allocated to the Local Jobs stream, \$100 million was to be quarantined to satisfy specific aspects of the commitments the Government had made to the Greens. As a result, \$60 million was specifically set aside for heritage-related projects and \$40 million<sup>3</sup> was quarantined for the construction of bike paths. Both quarantined components were to be restricted to the 2009–10 financial year, while the non-quarantined component of the Local Jobs stream would be a two-year program to 30 June 2011.

3. Although the three streams of the Jobs Fund each had their own particular focus, in each case the primary objective was the support and creation, through the delivery of funded projects, of jobs and employment opportunities in communities affected by the global recession and for

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<sup>1</sup> The Jobs and Training Compact was announced as representing the next step in the Government's response to the global recession and had three elements: a compact with retrenched workers; a compact with young people; and a compact with local communities (of which the Jobs Fund was a major component). See: The Hon Kevin Rudd MP, Prime Minister of Australia, Media Release, *Government establishes Jobs and Training Compact*, 5 April 2009.

<sup>2</sup> See further in ANAO Audit Report No.7 2011–12, *Establishment, Implementation and Administration of the Infrastructure Employment Projects Stream of the Jobs Fund*, Canberra, 22 September 2011.

<sup>3</sup> Following announcement of the Jobs Fund, it was determined that departmental costs to administer the respective elements of the program would be met from the total funding allocation. As a result, whilst \$40 million was allocated to the bike paths component, after \$2.1 million was set aside for departmental administrative costs, \$37.9 million was available for funding bike path construction projects.

disadvantaged job seekers. This was reflected in one set of guidelines initially being developed, encapsulating all three funding streams. These guidelines were published in April 2009. They stated that, to be considered for funding under any of the streams, a project needed to meet at least one of four target areas<sup>4</sup>, as well as meeting each of three gateway criteria, which were:

- projects must be in areas experiencing high unemployment, a significant rise in unemployment or vulnerability;
- projects must be viable and ready to start; and
- funding would not extend past 2010–11.<sup>5</sup> Projects were expected to be self-sufficient and/or not require Australian Government funding beyond 30 June 2011.<sup>6</sup>

## **Priority Employment Areas and Local Employment Coordinators**

4. The Jobs Fund was one of two major initiatives under the ‘local communities’ element of the Jobs and Training Compact announced by the Government in April 2009.<sup>7</sup> The other major initiative was the engagement of Local Employment Coordinators in nominated Priority Employment Areas. The Local Employment Coordinators were engaged to promote the take up of Commonwealth, state and territory education, training, infrastructure and other stimulus initiatives at the local level to ensure rapid responses to emerging unemployment pressures in their regions. In total, 20 Priority Employment Areas were identified based on analysis undertaken by the Department of Education, Employment and Workplace Relations (DEEWR) of a range of labour market indicators in order to identify and provide assistance

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<sup>4</sup> The four target areas were: create jobs or retain people in jobs at risk due to the downturn; build skills for the future; build community infrastructure or improve community amenity which generates local jobs; and provide seed funding for social enterprises to start up, maintain or expand services, generating jobs and improving community services.

<sup>5</sup> As noted at paragraph 2, elsewhere, the guidelines outlined that funding under the two quarantined components of the Local Jobs stream was not to extend past 30 June 2010.

<sup>6</sup> On 5 July 2010, the published guidelines were amended by way of an explanatory note to extend the project completion date for eligibility for funding under the IEP stream to 30 June 2012. On 24 March 2011, the program guidelines were similarly amended to extend the project completion date under the elements of the Local Jobs and Get Communities Working streams administered by the Department of Education, Employment and Workplace Relations (DEEWR) to 30 June 2012 to allow some delayed projects to be completed and deliver the anticipated community benefits. No such changes have been made to the guidelines in respect to either of the quarantined components of the Local Jobs stream, including the bike paths component that is the focus of this audit report.

<sup>7</sup> See footnote 1.

to those regions across Australia with labour markets which were likely to experience disadvantage and deterioration as a result of the global recession.

5. In June 2009, the Government decided to develop a whole of government strategy to build on existing initiatives to support Australian jobs. The strategy was entitled 'Keep Australia Working'. An interim *Keep Australia Working* report released in July 2009 recommended, amongst other things, that consideration be given to how to best focus the Jobs Fund on projects in Priority Employment Areas that would produce local jobs for local people, training and apprenticeships and pathways to long-term employment.<sup>8</sup>

### **Administration and implementation of the bike paths component**

6. Administration of the Jobs Fund was shared between four agencies. DEEWR was the lead agency, and it was also responsible for administering the Get Communities Working stream and the non-quarantined component of the Local Jobs stream. Up until 14 September 2010, the then Department of Infrastructure, Transport, Regional Development and Local Government (DITRD LG) administered the quarantined bike path projects component of the Local Jobs stream. This function was transferred in full to become the responsibility of the Department of Regional Australia, Regional Development and Local Government that was created through the machinery of government changes which took effect on 14 September 2010.<sup>9</sup> December 2011 machinery of government changes saw this department become the Department of Regional Australia, Local Government, Arts and Sport (Regional Australia). Throughout this report, the department responsible for administering the bike paths component of the Jobs Fund at the relevant point in time is referred to as the 'responsible department' or 'the department'.

7. The then Minister for Employment Participation announced a public call for applications to the first round of the Jobs Fund on 18 April 2009, with applications to close on 22 May 2009.<sup>10</sup> The application form did not provide applicants with the capacity to nominate which stream (or component within a stream) of the Jobs Fund they wished their project to be considered under.

<sup>8</sup> The final *Keep Australia Working* report released on 16 October 2009 identified five outcomes to be achieved through nominated initiatives, three of which were to be funded through a re-targeting of the remaining funding under the Local Jobs and Get Communities Working streams of the Jobs Fund.

<sup>9</sup> At that time, the then DITRD LG became the Department of Infrastructure and Transport (Infrastructure).

<sup>10</sup> Media Release, *Applications for First Round of \$650 million Jobs Fund Open*, The Hon Brendan O'Connor MP, Minister for Employment Participation, 18 April 2009.

Rather, applications were submitted to DEEWR. That department then either assessed the application under the streams for which it was responsible, or allocated it to another administering department, depending upon the stream (and associated component) DEEWR considered most appropriate to the proposed project.

8. A total of 255 applications, seeking funding of nearly \$105 million, were allocated to and assessed under the bike paths component. The various applications sought, on average, \$428 561 in Australian Government funding, with the value of the requested grants ranging from \$10 500 to \$3.82 million. The total estimated cost of the individual projects for which funding was sought ranged from \$21 000 to \$6.4 million, at an average total estimated project cost of \$871 196. This situation reflected the expectation outlined in the program guidelines for partner funding of at least 50 per cent of the project budget.

9. Assessment of these applications was completed in September 2009. Funding decisions were made in October 2009 and December 2009<sup>11</sup> by the then Minister for Infrastructure, Transport, Regional Development and Local Government. Funding agreements with successful applicants were signed between December 2009 and May 2010. From September 2010, administration of approved bike path component projects became the responsibility of the Minister for Regional Australia, Regional Development and Local Government. Throughout this report, the Minister responsible for administering the bike paths component of the Jobs Fund at the relevant point in time is referred to as the 'responsible Minister' or 'the Minister'.

## Audit objective

10. The objective of this audit was to assess the efficiency<sup>12</sup> and effectiveness of the establishment, implementation and administration of the bike paths component of the Local Jobs stream of the Jobs Fund. A particular

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<sup>11</sup> Initially, 174 projects were approved for funding. Funding offers for three projects were subsequently withdrawn prior to the relevant funding agreements being signed once it emerged that the projects had either been completed, or were substantially complete. With the funding that then became available, a further project was approved in December 2009.

<sup>12</sup> As an economic stimulus program, efficiency was assessed with particular attention to whether the application, assessment, decision-making and funding agreement processes were undertaken in a timely manner. This emphasis was consistent with the criterion adopted by the Government for the design of the stimulus packages established in response to the global financial crisis (see further at paragraph 4.20).



focus was on the establishment of program objectives and the extent to which approved grants have demonstrably contributed to the cost-effective achievement of those objectives. The audit approach has been influenced by recent audits of grants administration which have emphasised the importance of transparent and accountable grant decision-making processes to the cost effective achievement of stated program objectives, and having regard for recent government decisions to enhance the framework applying to the administration of grants.

## Overall conclusion

11. The bike paths component was established following a government decision that its commitment to the Australian Greens to quarantine a downpayment of \$40 million for projects involving the construction of bike paths would be delivered as one element of an integrated Jobs Fund. The objectives of the bike paths component, as stated in the published Jobs Fund guidelines, reflected the policy context that the Jobs Fund was part of the Government's response to the global financial crisis. In addition to the intention of providing timely economic stimulus, the published guidelines outlined that the bike paths component was expected to assist with the provision and utilisation of an alternative transport option to motor vehicles.

12. In total, 175 projects were approved for bike paths component funding, and the majority (95 per cent) of these proceeded to a funding agreement being signed. By the budgeted program end-date of 30 June 2010, just over half of the 167 contracted projects had been reported by funding recipients as complete, with all but two of the remaining contracted projects being completed during 2010–11. As a result, the bike paths component funding has contributed to the construction, extension and refurbishment of bike path facilities in a number of localities across the country.

13. Nevertheless, for all streams and components of the Jobs Fund, the primary objective related to economic stimulus. The bike paths component of the Jobs Fund fell significantly short of achieving the stated program objectives. Specifically:

- the financial stimulus that occurred was later than that budgeted. Of note was that, whilst funding under the bike paths component was announced as being available only in the 2009–10 financial year, no payments for bike path construction work were made in the first six months of that 12 month program window, and more than a third of

the available funding had not been paid to project proponents by the scheduled program end-date of 30 June 2010. In addition, a significant proportion of the contracted funding was not paid to proponents until the second half of the 2010–11 financial year (up to 12 months after the scheduled program end-date of 30 June 2010), with the last program payments not expected to be made until April 2012; and

- the implementation of the program did not focus the available funding on projects that would maximise job creation and retention outcomes in the areas of identified greatest need. Further in this respect, there is no reliable data available on actual employment outcomes achieved through the contracted projects.

14. In addition, the implementation of the bike paths component was inconsistent with key aspects of the enhanced grants administration framework.<sup>13</sup> A key underpinning of that framework is that Ministers not approve a proposed grant without first receiving agency advice on its merits relative to the relevant program's guidelines; and report to the Finance Minister all instances where they approve grants that the relevant agency recommended be rejected.<sup>14</sup> However, in respect to the bike paths component of the Local Jobs stream of the Jobs Fund, the responsible department did not provide its Minister with recommendations as to which applications should be approved, and those that should be rejected.

15. The responsible department also did not undertake any value for money analysis in respect to the employment claims made by project proponents in their applications<sup>15</sup>, and the iterative process used to select the successful applications was inconsistent with the published Jobs Fund guidelines. Of particular note in this latter respect was that more than one third of applications approved for funding had been assessed by the

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<sup>13</sup> This framework was progressively introduced between December 2007 and July 2009, culminating in Commonwealth Grant Guidelines (CGGs) taking effect from 1 July 2009.

<sup>14</sup> These requirements, together with other related enhancements to the grants administration framework, do not affect a Minister's right to decide on the awarding of grants. Rather, they provide for an improved decision-making framework encouraging Ministers to be as well informed as possible when deciding whether to approve grants, and promoting transparency around the reasons for decisions.

<sup>15</sup> As a result, a number of applications with relatively limited claimed employment benefits were approved. At the same time, other projects with significant claimed employment benefits that were located in one of the Priority Employment Areas agreed by government as having labour markets most likely to be affected by the global financial crisis and had been assessed as meeting all other identified criteria, were not approved.

responsible department as not meeting at least one of the criteria outlined in the published Jobs Fund guidelines. Of greatest significance was the approach taken to the first gateway criterion set out in the published guidelines, which required that funding only be approved for projects located in areas experiencing high unemployment, a significant rise in unemployment or vulnerability. Despite this requirement, projects that had been assessed as not meeting that threshold criterion were not excluded from consideration under the bike paths component. More than one quarter of the approved applications had been assessed as not meeting this key (and mandatory) criterion.<sup>16</sup> This approach was taken notwithstanding that the available funding could have been fully allocated to projects:

- that had been assessed as meeting all published criteria, including the unemployment gateway criterion;
- for which no implementation risks had been identified, or the identified risks were considered to be acceptable and capable of being managed through the funding agreement; and
- where the application had stated at least one job would be created or retained in a Priority Employment Area. In this respect, while projects were not required to be located in a Priority Employment Area to be funded under the Jobs Fund, these Areas had been agreed by government as the areas with labour markets that were most likely to be affected by the global financial crisis, and the July 2009 interim Keep Australia Working report (released some three months before funding decisions were taken in respect to the bike paths component) had indicated that the Jobs Fund would be focused on funding projects located in the Priority Employment Areas.

16. Instead of focusing the selection process on applications with these characteristics, priority was given to those projects assessed by the responsible department as having the lowest post-mitigation project implementation risk level. This approach was adopted on the basis that a 'very low' or 'no risk' rating would be a generally good indicator that a project was ready-to-go, would be successfully implemented and, accordingly, had the greatest capacity to deliver jobs. However, the terms of the published Jobs Fund guidelines did

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<sup>16</sup> In total, 45 of the 175 applications approved for funding (26 per cent), involving 27 per cent of approved funding, had been assessed by the responsible department as not meeting the unemployment gateway criterion.

not support the adoption of this approach for selecting successful applications, and the department's approach to risk assessment was not conducted with a view to the results playing a significant role in that process. In this context, shortcomings in the responsible department's identification and assessment of risks and inconsistencies in the allocation of risk ratings had a significant effect on which applications were awarded funding, and those that were unsuccessful. In addition, as demonstrated by the delays in delivery of construction works funded under the program, the risk assessment results did not prove to be a good indicator to use in selecting projects that would provide timely economic stimulus.

17. Regional Australia has acknowledged to ANAO that there were shortcomings in the implementation of the bike paths component and has advised ANAO that its perspective is that this situation reflects that the bike paths component was implemented concurrently with another economic stimulus program (the Strategic Projects component of the Regional and Local Community Infrastructure Program–RLCIP), with program design and delivery being the responsibility of the same department and the same Minister being responsible for both programs. In this respect, an ANAO performance audit of the first round of the Strategic Projects component of the RLCIP, completed in July 2010, had identified significant shortcomings in the application assessment and approval processes which contributed to the Strategic Projects component not achieving the stimulus objectives set for that program.<sup>17</sup>

18. It is recognised that departmental advice in relation to the bike paths component of the Jobs Fund had been provided to the responsible Minister prior to the findings of the audit of the Strategic Projects component of the RLCIP being communicated to the responsible department. Nevertheless, program implementation and administration should occur in the context of the guidelines approved and published for the particular program. In this respect, the bike paths component of the Jobs Fund operated under separate and markedly different guidelines to those that had applied to the Strategic Projects component of the RLCIP.<sup>18</sup> The Jobs Fund was also meant to be an integrated

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<sup>17</sup> See further in ANAO Audit Report No.3 2010–11, *The Establishment, Implementation and Administration of the Strategic Projects Component of the Regional and Local Communities Infrastructure Program*, Canberra, 27 July 2010.

<sup>18</sup> For example, whilst the guidelines for the Strategic Projects component of the RLCIP did not include any assessment criteria, criteria for the Jobs Fund components and streams were published in the guidelines applying to that program.

fund, but the approach taken to the bike paths component had few similarities to the approaches taken by the departments administering other elements of the first round of the Jobs Fund.<sup>19</sup> It is also relevant to note that the CGGs were issued after funding decisions were taken in respect to the Strategic Projects component of the RLCIP, but some two months before the responsible department provided its assessment advice to the responsible Minister under the bike paths component.

19. A recently tabled ANAO cross-portfolio audit examining the administration of reporting obligations under the enhanced grants administration framework observed widespread variability in the quality of briefing practices across agencies that are subject to the *Financial Management and Accountability Act 1997* (FMA Act). Similar to the situation with the bike paths component, a significant proportion of the Ministerial briefs examined in the course of that audit did not clearly identify those proposed grants that the agency recommended be approved, and those that it recommended be rejected.<sup>20</sup> That audit included three recommendations aimed at enhancing the quality of advice provided to Ministers and compliance with the associated reporting obligations. Regional Australia, together with all other responding agencies, agreed to those recommendations. In addition, Regional Australia has advised ANAO that its implementation of the Community Infrastructure Grants program and the Regional Development Australia Fund (RDAF) has been informed by the findings of the audit of the Strategic Projects component of the RLCIP.<sup>21</sup>

20. Against this background, this report includes three recommendations relating to:

- adopting application processes and assessment criteria that support, subject to government concurrence, the selection of projects that are likely to best contribute to achieving the objectives of the National

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<sup>19</sup> For example, in respect to the unemployment gateway criterion, DEEWR (the lead agency for the Jobs Fund) prioritised projects with high job creation/retention claims located in Priority Employment Areas for funding (see further at paragraph 3.15). As well as considering the employment disadvantage of the relevant location, the selection process adopted by DEEWR incorporated assessment of the value for money offered by the job creation/retention proposed by applicants.

<sup>20</sup> See further in ANAO Audit Report No.21 2011–12, *Administration of Grant Reporting Obligations*, Canberra, 24 January 2012.

<sup>21</sup> ANAO has commenced a performance audit of the first round of the RDAF.

Cycling Strategy in the administration of any further funding allocated for bike path construction projects<sup>22</sup>;

- value for money and ‘fit for purpose’ considerations being addressed in Regional Australia’s implementation of infrastructure construction funding programs; and
- improvements to risk assessment practices so as to promote the equitable treatment of applicants and effective management of risk.

## Key findings by Chapter

### Assessment of applications (Chapter 2)

21. Whilst the primary objective of the Jobs Fund was to support and create jobs and employment opportunities in communities affected by the global recession and for disadvantaged job seekers, quarantined funding of \$40 million for bike path construction projects was expected to also assist with the provision and utilisation of an alternative transport option to motor vehicles. Similarly, quarantined funding for heritage projects was expected to provide stimulus while also promoting the achievement of improved heritage outcomes.

22. In respect to the quarantined heritage component of the Local Jobs stream, the published guidelines outlined that projects to be funded in 2009–10 would be assessed against both the common criteria that applied across all elements of the integrated Jobs Fund, as well as heritage-specific criteria. By way of comparison, the department responsible for the bike paths component did not, either in contributing to the development of the Jobs Fund guidelines or in advice provided to its Minister, canvass the merits of similarly identifying criteria that would enable it to assess the relative merits of competing bike path project applications in terms of providing alternative transport options (as well as meeting the economic stimulus gateway criteria and target areas). Accordingly, the approach taken to the bike paths component represented a missed opportunity to maximise the contribution the

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<sup>22</sup> In agreeing to set aside \$40 million from the Jobs Fund for the construction of bike paths, the Government undertook that Infrastructure Australia would consider more significant investments in bike paths in the period ahead—see further at paragraphs 2.28 to 2.33.

\$37.9 million<sup>23</sup> in funding available for bike path construction could make towards achieving the objectives of the then extant National Cycling Strategy.

23. The approach taken to assessing Jobs Fund applications allocated to the bike paths component also did not seek to focus funding consideration on those projects that would maximise job creation and retention outcomes for the funding awarded in the areas of identified greatest need (particularly the Priority Employment Areas agreed by government). In addition, the responsible department did not undertake any value for money analysis in respect to the employment claims made by project proponents in their applications. As a result of the department not assessing applications in terms of the extent to which they could be expected to contribute to achieving the program objectives, a number of applications with relatively limited claimed employment benefits were approved. At the same time, other projects which claimed significant employment benefits that were located in Priority Employment Areas and had been assessed as meeting all other identified criteria were not approved. This was a somewhat perverse outcome in the context of the reasons for establishing the Jobs Fund, and the findings and recommendations of the *Keep Australia Working* report that was released in the same month (July 2009) in which the responsible department commenced the assessment of applications allocated to the bike paths component.<sup>24</sup>

24. The department also did not assess the dimensions and functionality of proposed bike path projects and/or the usage the facility was expected to attract in order to assess whether:

- the proposed cost represented value for money when compared with industry standards for the construction of a relevant facility; and/or
- the proposed dimensions accorded with accepted standards for such facilities.

### *Risk assessment*

25. Risk assessment played a relatively limited role in respect to the assessment of applications allocated to the heritage component of the Local Jobs stream. While explicitly provided for in the assessment methodology

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<sup>23</sup> See footnote 3.

<sup>24</sup> That report had recommended that Jobs Fund funding be targeted to the Priority Employment Areas (see further at paragraph 3.15).

applied by DEEWR to the general component of the Local Jobs stream, risk assessment did not form part of the scored assessment of a project used to rank projects for funding consideration under that element. In contrast, risk assessment played a key role in the responsible department's assessment of applications allocated to the bike paths component of the Local Jobs stream. However, the approach taken to identifying and assessing risks lacked rigour, and risk ratings were not consistently applied across applications identified as having similar risk profiles.

26. Neither the published program guidelines, nor the department's approach to risk assessment, intended that an application's assessed level of project implementation risk would be used as a primary determinant of whether it would receive funding.<sup>25</sup> However, in October 2009 a decision was taken to give funding priority to those projects assessed by the department as having the lowest post-mitigation risk level. This approach was adopted on the basis that a 'very low' or 'no risk' rating was considered to generally be a good indicator that a project was ready-to-go, would be successfully implemented and, accordingly, had the greatest capacity to deliver jobs. In this context, the shortcomings in the responsible department's identification and assessment of risks and inconsistencies in the allocation of risk ratings had a significant effect on which applications were awarded funding, and those applications that were unsuccessful.

### **Assessment advice and funding decisions (Chapter 3)**

27. Of the 255 applications assessed for possible funding from the \$37.9 million available under the bike paths component of the Jobs Fund, there were 99 seeking \$40.67 million that, based on the results of the responsible department's assessment work:

- were located in a Priority Employment Area (and therefore clearly met the unemployment gateway criterion), as well as meeting each of the other seven criteria derived by the department from the guidelines;
- also met the expectation outlined in the guidelines for partner funding of at least 50 per cent of the project budget;

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<sup>25</sup> Rather, the department intended that its risk assessments would be used to inform its assessments as to: whether projects were viable and ready to start (the second gateway criterion); whether projects would be self-sustaining and not require Commonwealth funding after 30 June 2010 (the third gateway criterion as it applied to the bike paths component); and how well the project proponent could be expected to manage any grant funds it may be awarded.



- had no identified implementation risks, or the identified risks were considered acceptable and able to be managed through the funding agreement; and
- would create or retain at least one job, work experience position or traineeship in a Priority Employment Area.

28. However, the process applied to selecting the successful applications did not focus attention on projects with these characteristics, with 21 of those 99 projects not being approved. By way of comparison, nearly a third of approved projects (32 per cent, 56 projects) had been assessed as not meeting at least one of the eight criteria derived from the guidelines by the department and/or had not met the expectation outlined in the guidelines for partner funding of at least 50 per cent of the project budget.

29. Overall, the way in which assessment advice was provided to the responsible Minister and the process through which applications were selected for approval was inconsistent with key aspects of the grants administration framework. In particular:

- the responsible Minister was not provided with departmental advice as to which applications were recommended for approval, and those that the department recommended should be rejected. In addition to denying Ministers the benefits of comprehensive agency advice, this approach negates the operation of important aspects of the grants administration framework<sup>26</sup>;
- the requirement under the *Financial Management and Accountability Regulations 1997* (FMA Regulations) for the basis of decisions to award grants to be recorded was not met<sup>27</sup>; and

<sup>26</sup> In particular, the CCGs require that Ministers report annually to the Finance Minister all instances where they have decided to approve a grant that the relevant agency had recommended be rejected. The absence of any agency recommendation about which proposed grants are recommended for approval, and those that the agency recommends be rejected, means there is no basis to identify any instances of a decision-maker disagreeing with the agency advice.

<sup>27</sup> FMA Regulation 12 requires that the basis for any decision to approve a grant be documented (that is, the basis on which the approver was satisfied that the proposed grant complied with FMA Regulation 9—see footnote 28). In the context of a competitive grant program, such as the bike paths component of the Jobs Fund, appropriately recording the basis for decisions to approve certain proposed grants necessarily involves documenting consideration of the relative merits of competing applications in meeting the program criteria and objectives. The absence of agency funding recommendations makes it more difficult for decision-makers to identify those instances in which it will be necessary for them to separately document the basis for any decision to approve a grant, rather than being able to point to the departmental advice and recommendation as meeting that requirement.

- the iterative process adopted to select the successful applications was inconsistent with the published program guidelines.<sup>28</sup> Under that process, the outcome of the departmental risk assessment was adopted as the primary determinant of the projects to be awarded funding<sup>29</sup>, rather than the selection process being based on a comparative assessment of the merits of the competing, compliant applications in meeting the program criteria and objectives in order to identify the most meritorious projects. As a result, more than one quarter of the applications that were approved had been assessed as not meeting the mandatory unemployment gateway criterion.<sup>30</sup> This was the case notwithstanding that:
  - the published Jobs Fund guidelines had not provided any scope to waive any of the gateway criteria; and
  - the interim *Keep Australia Working* report released three months prior to bike paths component funding decisions being made had reiterated that the Priority Employment Areas were those areas with the greatest need for direct assistance and that, in future, Jobs Fund funds should be targeted to those areas.

30. These failings are similar to those evident as a result of an earlier audit of another competitive, applications-based grant program also conducted by the responsible department in calendar 2009 (the first round of the Strategic Projects component of the RLCIP program). Departmental advice in respect to the bike paths component of the Jobs Fund had been provided to the responsible Minister prior to the findings of ANAO's audit of the first round of the Strategic Projects component being communicated to the department. In response to that audit report, the department indicated to ANAO that it now had a better appreciation of its obligations under the enhanced grants administration framework, and that procedures would be implemented to

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<sup>28</sup> In this respect, FMA Regulation 9 prohibits an approver from approving a spending proposal unless satisfied, after undertaking reasonable inquiries, that giving effect to the proposal would be an efficient, effective, economical and ethical use of the Commonwealth resources that is not inconsistent with the policies of the Commonwealth. The CGGs state that the guidelines applying to a grant program are one of the policies of the Commonwealth for the purposes of Regulation 9.

<sup>29</sup> See further at paragraphs 2.100 to 2.101 and paragraphs 3.23 to 3.24.

<sup>30</sup> By way of comparison, for the general component of the first round of the Local Jobs stream and the first round of the Get Communities Working stream, DEEWR gave initial priority to projects with high job creation/retention located in Priority Employment Areas and the Victorian Bushfire region.

provide a clear agency recommendation to the Minister concerning whether or not funding should be approved in respect to each application to competitive, merits-based grants programs it administers.<sup>31</sup> In this context:

- ANAO is currently undertaking an audit of the conduct of the first round of the Regional Development Australia Fund administered by Regional Australia, including the processes by which applications were assessed; recommendations made to the Minister responsible for that program; and successful projects approved for funding. That audit will provide an opportunity to gauge the extent to which Regional Australia's approach has been informed by the audit of the Strategic Projects component; and
- broader ANAO audit activity, through two audits examining the implementation of key aspects of the enhanced grants administration framework, has shown that it has been relatively common for agencies to not clearly identify in their advice to Ministerial decision-makers those proposed grants that the agency recommends be approved, and those that it recommends be rejected. ANAO concluded that these and related findings showed that there was room for improvement on the part of agencies in respect to implementing the CGG requirements. ANAO also concluded that, without detracting from the clear responsibilities of individual agencies and consistent with the objectives underpinning the 2009 government decision to establish a dedicated grants framework unit within the Department of Finance and Deregulation (Finance), there would be benefits in Finance working collaboratively with agencies to assist them in implementing the grants administration framework, including in relation to more effectively meeting the obligation to advise Ministers on the merits of proposed grants.<sup>32</sup>

### *Distribution of funding*

31. Approval rates for bike path component projects were broadly in line with the number of applications received from each state and territory, although the approval rate of nearly 86 per cent for projects located in South Australia was noticeably higher than the national average of some 69 per

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<sup>31</sup> ANAO Audit Report No.3 2010–11, op. cit., p. 22.

<sup>32</sup> See further in ANAO Audit Report No.21 2011–12, op. cit.

cent.<sup>33</sup> This was a consequence of a preference evident in the approval outcomes for smaller value grant requests compared with those applicants seeking a higher grant.<sup>34</sup>

32. Overall, the distribution of funding was largely consistent with the proportion of electorates held by the major parties and Independent members. Nevertheless, as noted, the approach taken was inconsistent with the published guidelines and stated program objectives which intended that funding be focused on projects that would provide economic stimulus where it was needed, rather than allocating funding in accordance with political representation in the House of Representatives. In this respect, had the selection process for the bike paths component focused on those projects located in Priority Employment Areas that been assessed by the responsible department as meeting the published program guidelines, the distribution of funding would have predominantly favoured projects in electorates held by the Australian Labor Party.<sup>35</sup> This would have been an unsurprising result given the location of the Priority Employment Areas<sup>36</sup>, and the characteristics of the applications allocated to the bike paths component for assessment.

## **Program outcomes (Chapter 4)**

### *Financial stimulus*

33. Most (95 per cent) of the projects approved for bike path component funding proceeded to have a funding agreement signed. In total, the funding agreements involved the provision of more than \$36.9 million in economic stimulus funding (97 per cent of the total program funding that was available). At the time they were signed, the funding agreements outlined that this

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<sup>33</sup> Whilst all applications from the Northern Territory and Australian Capital Territory were approved, very few applications were received for projects located in either territory.

<sup>34</sup> The preference for approving a larger number of smaller value grants disadvantaged those applicants that had sought larger value grants. Neither the published guidelines nor any other information provided to potential applicants had indicated that the awarding of funding would favour applications seeking smaller grants over those seeking larger grants. Rather, the guidelines had advised that grants of up to \$2 million were available under the bike paths component, with funding for individual projects to be determined on a case-by-case basis.

<sup>35</sup> Specifically, 76 per cent of such projects were located in an electorate held by the Australian Labor Party, involving more than 81 per cent of funding being sought in respect to such projects.

<sup>36</sup> The 20 Priority Employment Areas had been identified by DEEWR from analysis of 25 labour market indicators. Those 20 Areas encapsulated all or part of the area of 80 of the 150 Federal electorates, of which 52 (65 per cent) were held by the Australian Labor Party. See further in ANAO Audit Report No.7 2011–12, *Establishment, Implementation and Administration of the Infrastructure Employment Projects Stream of the Jobs Fund*, Canberra, 22 September 2011, pp 58–62.

funding would be paid principally (93 per cent) within the one year program window of 2009–10 (on which funding eligibility under the program guidelines had been based), with the remaining funds being scheduled for payment no later than November 2010.

34. While contributing to the construction, extension or refurbishment of off-road bike paths, on-road bike lanes and bicycle parking facilities in numerous locations across the country, the bike paths component has not provided the planned level of stimulus in the timeframe that had been budgeted. In particular, as illustrated by Figure S 1:

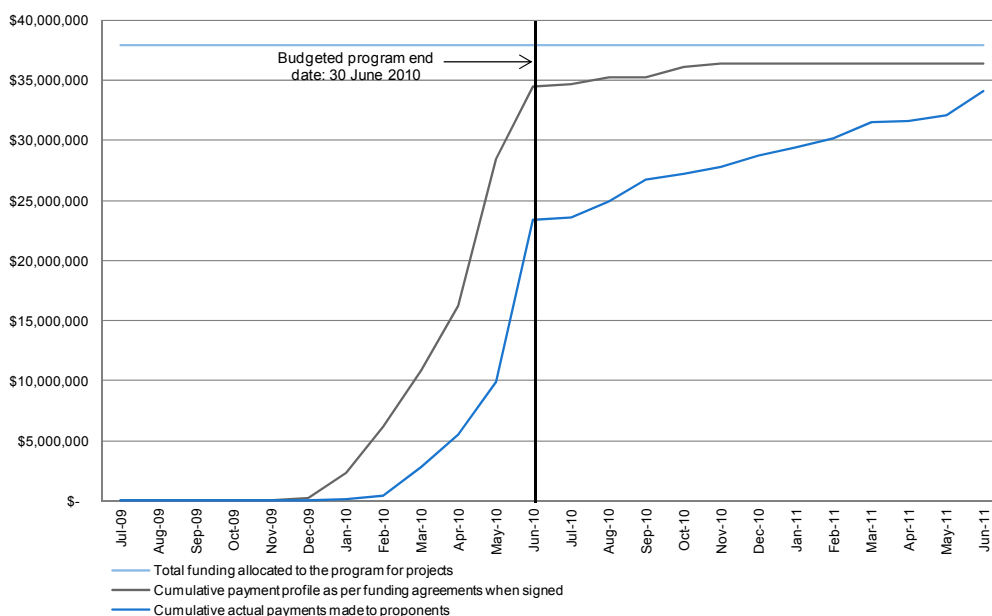
- reflecting the significant delay that occurred between applications being lodged in May 2009 and funding decisions being made (largely in October 2009), and subsequent further delays in funding agreements being signed<sup>37</sup> (between December 2009 and May 2010), no payments for bike path construction work were made in the first six months of the 12 month program window (1 July 2009 to 31 December 2009);
- whilst program payments increased significantly in the last quarter of 2009–10, more than a third (38 per cent) of the \$37.9 million in stimulus funding that had been made available for the construction of bike path projects had not been paid to project proponents by 30 June 2010; and
- a significant proportion of the remaining contracted funding was not paid to proponents until the second half of fiscal 2010–11 (up to 12 months after the scheduled program end-date of 30 June 2010), with the last program payments not expected to be made until April 2012.

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<sup>37</sup> The program guidelines stipulated that proponents were not to commence activities dependant on the program funding until the funding agreement was signed.

**Figure S 1**

**Program funding, cumulative contracted payments and cumulative actual program expenditure as at June 2011**



Source: ANAO analysis of Regional Australia data.

***Creation and retention of jobs***

35. As noted, although the three principal streams of the Jobs Fund each had their own particular focus, in each case the primary objective was the support and creation, through the delivery of funded projects, of jobs and employment opportunities in communities affected by the global recession and for disadvantaged job seekers. Applications submitted to the first round of the Local Jobs stream of the Jobs Fund, including those allocated to the bike paths component for assessment, were required to outline the number of jobs the applicant claimed the project would create or cause to be retained, either in the short or long-term.<sup>38</sup> In the case of the bike paths component, this data was provided to the responsible Minister to inform his funding decisions, but without the claims made in the application being scrutinised by the responsible department so as to be satisfied that the employment claims were realistic, and represented value for money for the grant being requested.

<sup>38</sup> Short-term jobs were those expected to be created or retained as a result of the project for less than six months. Long-term jobs were those expected to be created or retained for longer than six months.

36. In that context, whilst recognising that the anticipated employment outcomes for those projects that were approved and contracted for delivery should be treated with some caution, those outcomes were nevertheless expected to be significant. Specifically, in seeking funding, the proponents of the 167 projects that were contracted to receive bike paths component funding had indicated that, in aggregate, their projects would create or retain more than 1 130 short-term jobs and nearly 550 long-term jobs, as well as more than 80 work experience positions and nearly 90 traineeships. However, the funding agreements used for the bike paths component did not make any reference to the claimed employment outcomes that informed the decision to award funding to the contracted projects.

37. Notwithstanding the absence of a contracted benchmark against which to assess performance, the funding agreement required funding recipients to report (in progress reports and a final report upon completion of the project) on the employment outcomes that were achieved, together with evidence to support the reported outcomes. However, compliance with these aspects of the reporting requirements was quite variable, with no employment outcomes being reported in respect to more than 20 per cent of contracted projects, and supporting documentation for claimed outcomes not being provided in respect to 94 per cent of those projects where one or more jobs had been reported as having been created or retained. In addition, for a significant number of projects, the reported outcomes were either significantly less or significantly greater than the employment claims outlined in the application for funding, but this did not cause the responsible department to investigate the reliability of the data being reported to it. In the above circumstances, there is no reliable data available on actual employment outcomes achieved through projects funded under the bike paths component.

## Agency responses

38. Having regard for the various administrative arrangements that have applied in relation to the bike paths component of the Jobs Fund over time, the proposed audit report issued under section 19 of the *Auditor-General Act 1997* was provided to Regional Australia, Infrastructure and DEEWR and the two Ministers who have had responsibility for the program at various points in time. Whilst no formal response to the draft report was received from the relevant Ministers, Infrastructure and DEEWR, the formal response received from Regional Australia is set out below.

The Department of Regional Australia, Local Government, Arts and Sport has adopted a continuous improvement approach to our grants management priorities and uses this and other audit reports as one of the tools that assists to refine and enhance our grants management practices.

The Department notes that the National Bike Paths Program, which commenced in early 2009, was administered across two Departments. The Department of Infrastructure, Transport, Regional Development and Local Government had responsibility for the implementation and delivery of the program until September 2010. Machinery of government changes transferred responsibility for finalising the program to the Department of Regional Australia, Local Government, Arts and Sport.

I agree with all three of your recommendations. I note that, where relevant, I have ensured these are in place for all programs developed since the establishment of the Department.



# Recommendations

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

## **Recommendation No. 1**

### **Paragraph 2.36**

ANAO recommends that Australian Government agencies responsible for administering any future grant programs involving the construction of cycling infrastructure seek government concurrence to the inclusion in the relevant program guidelines of application processes and assessment criteria that will support the selection of projects that are likely to best contribute to achieving the objectives of the National Cycling Strategy.

**Regional Australia response:** Agreed.

## **Recommendation No. 2**

### **Paragraph 2.71**

ANAO recommends that, in implementing funding programs for the construction of infrastructure, the Department of Regional Australia, Local Government, Arts and Sport:

- (a) undertakes analysis of the value for money of proposals received, including analysing the expected outcomes to be achieved for the funding sought and assessing whether the proposed cost is reasonable; and
- (b) requires that funded projects be constructed to appropriate technical standards, in order to address the risk of the Australian Government funding projects that are not fit for their intended purpose.

**Regional Australia response:** Agreed.

**Recommendation  
No. 3**

**Paragraph 2.104**

ANAO recommends that, when conducting risk assessments of applications for funding under grant programs, the Department of Regional Australia, Local Government, Arts and Sport promotes the equitable treatment of applicants and effective management of risk by developing procedures that consistently rate and treat similar risks.

**Regional Australia response:** Agreed.

## **Audit Findings**



# 1. Introduction

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*This chapter provides an overview of the quarantined bike paths component of the Local Jobs stream of the Jobs Fund as an economic stimulus measure introduced in response to the global financial crisis. It also outlines the audit objective, scope and criteria.*

## Background

**1.1** In 2008, the global financial crisis resulted in a period of worldwide economic downturn and the prospect of rising unemployment in many countries, including Australia. In response, the Australian Government applied a number of fiscal measures to support employment and economic recovery.

**1.2** The single largest package of fiscal stimulus measures, the \$42 billion Nation Building and Jobs Plan, was announced by the Government on 3 February 2009. Following a series of negotiations by the Government with the Australian Greens; then Senator Steve Fielding, Family First Senator for Victoria; and Senator Nick Xenophon, Senator for South Australia, the related legislation was passed by the Parliament on 13 February 2009.

**1.3** In this context, on 17 March 2009, the Strategic Priorities and Budget Committee (SPBC) of Cabinet agreed to the establishment of an integrated \$650 million Jobs Fund comprising three streams:

- a \$300 million Local Jobs stream, which related to the delivery of commitments made to the Australian Greens in the context of securing passage of the legislation relating to the Nation Building and Jobs Plan. Reflecting specific elements of the commitments made to the Greens, \$100 million of that funding was to be quarantined, with \$60 million specifically set aside for heritage-related projects (broken down into a number of sub-components), and \$40 million set aside for the construction of bike paths;
- a \$200 million Get Communities Working stream, which related to the delivery of commitments made to Senator Fielding in the context of securing passage of the legislation relating to the Nation Building and Jobs Plan; and
- a \$150 million Infrastructure Employment Projects (IEP) stream.

**1.4** The SPBC further agreed that the Jobs Fund would operate for two years only (from 1 July 2009 to 30 June 2011) and would be targeted to areas of high unemployment, as well as to projects that were ready to start immediately. The Jobs Fund was also to give priority to: supporting and creating jobs; building skills for the future; building sustainable infrastructure for the future; and new and existing social enterprises.

**1.5** The creation of the \$650 million Jobs Fund was announced by the Government on 5 April 2009 as part of a Jobs and Training Compact with Australians affected by the global recession that promised training, support and local initiatives to help them get back to work.<sup>39</sup> The Compact was announced as representing the next step in the Government's response to the global recession and had three elements:

- a compact with retrenched workers;
- a compact with young people; and
- a compact with local communities, of which the Jobs Fund formed a key part.

## **Program guidelines**

**1.6** Although the three principal streams of the Jobs Fund each had their own particular focus<sup>40</sup>, in each case the primary objective was to support and create jobs and employment opportunities in communities affected by the global recession and for disadvantaged job seekers through the funded projects. This was reflected in one set of guidelines initially being developed, encapsulating all three funding streams.

**1.7** The Jobs Fund program guidelines were published in April 2009. They identified a common set of threshold criteria which had an economic stimulus and employment support focus (in terms of both the location and timeframe of

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<sup>39</sup> See: The Hon Kevin Rudd MP, Prime Minister of Australia, Media Release, *Government establishes Jobs and Training Compact*, 5 April 2009.

<sup>40</sup> The Local Jobs stream had an emphasis on community based infrastructure projects, with a focus on the promotion of green technology, heritage and environment-friendly projects. The Get Communities Working stream was focused on providing grants for innovative employment and social projects to build capacity, improve community amenity and provide opportunities for disadvantaged job seekers, with the aim of ensuring that communities already suffering entrenched disadvantage, vulnerability or exceptional circumstances were in the best possible position when times improved. The IEP stream was established to support infrastructure projects in areas vulnerable to the impact of large scale losses of employment as a result of the economic downturn, or suffering from other external shocks such as large scale fire or flood events.

projects). The threshold requirements comprised nominated target areas and gateway criteria. The guidelines stated that, to be considered for funding under any of the streams, a project needed to meet at least one of four target areas<sup>41</sup>, as well as meeting each of three gateway criteria, which were that:

- projects must be in areas experiencing high unemployment, a significant rise in unemployment or vulnerability;
- projects must be viable and ready to start; and
- funding would not extend past 2010–11. Projects were expected to be self-sufficient and/or not require Australian Government funding beyond 30 June 2011. In relation to this last gateway criterion, the guidelines outlined elsewhere that funding under the two quarantined sub-streams of the Local Jobs stream (see paragraph 1.3), including the bike paths component, was not to extend past 30 June 2010.

## Priority Employment Areas and Local Employment Coordinators

1.8 The Jobs Fund was one of two major initiatives under the ‘local communities’ element of the Jobs and Training Compact. The other major initiative was the engagement of Local Employment Coordinators (LECs) in nominated Priority Employment Areas. The Priority Employment Areas were identified based on analysis undertaken by the Department of Education, Employment and Workplace Relations (DEEWR) of a range of labour market indicators in order to identify and provide assistance to those regions across Australia with labour markets which were likely to experience disadvantage and deterioration as a result of the global recession.<sup>42</sup> Although LECs were not specifically engaged to drive the infrastructure-related stimulus measures, they were promoting the take up of Commonwealth, state and territory education, training, infrastructure and other stimulus initiatives at the local level to ensure rapid responses to emerging unemployment pressures in their regions. In total, 20 Priority Employment Areas were identified (see Figure 1.1), and

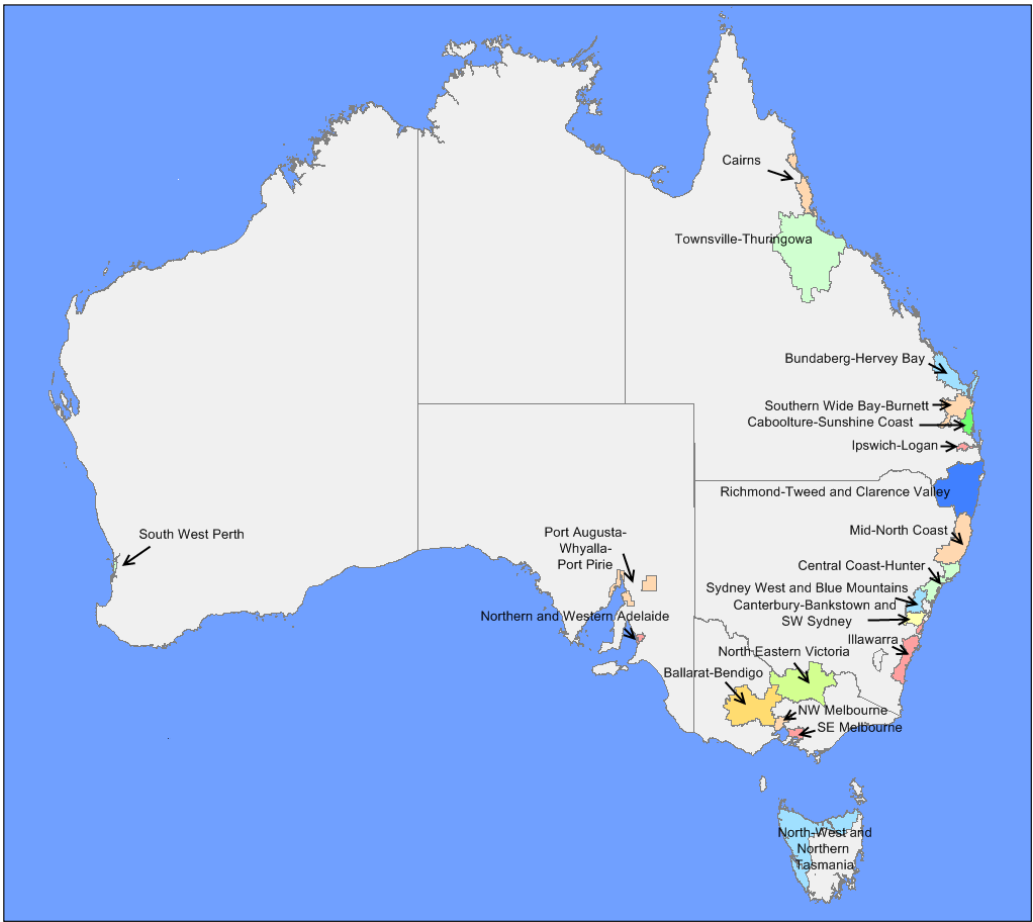
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<sup>41</sup> The four target areas were: create jobs or retain people in jobs at risk due to the downturn; build skills for the future; build community infrastructure or improve community amenity which generates local jobs; and provide seed funding for social enterprises to start up, maintain or expand services, generating jobs and improving community services.

<sup>42</sup> See further at ANAO Audit Report No.7 2011–12, *Establishment, Implementation and Administration of the Infrastructure Employment Projects Stream of the Jobs Fund*, Canberra, 22 September 2011, pp 58–62.

permanent or interim LECs had been engaged in each of those Areas by July 2009.<sup>43</sup>

**Figure 1.1**  
**Location of Priority Employment Areas**



Source: Department of Education, Employment and Workplace Relations.

**1.9** A project did not need to be located in a Priority Employment Area in order to be eligible for funding under the Jobs Fund. Rather, as noted, the Priority Employment Areas had been identified as those areas with labour markets that were most likely to be affected by the global financial crisis. In this context, as part of a government strategy to build on existing initiatives to

<sup>43</sup> The Jobs and Training Compact Monitoring Report prepared by DEEWR for the quarter ending September 2009.



support Australian jobs (entitled 'Keep Australia Working'), it was decided in July 2009 that consideration should be given to how to best focus the Jobs Fund on projects in Priority Employment Areas that would produce local jobs for local people, training and apprenticeships and pathways to long-term employment.<sup>44</sup>

## Genesis of the bike paths component of the Jobs Fund

**1.10** As mentioned at paragraph 1.3, the inclusion within the Jobs Fund of a quarantined \$40 million for construction of bike paths reflected a commitment made by the Government to the Australian Greens in the context of negotiating passage of the legislation relating to the Nation Building and Jobs Plan.<sup>45</sup> In this respect, in February 2009 the Leader of the Australian Greens advised the Senate that:

We have also been able to reach agreement with the government about what I think is the beginning of a major new investment in public transport, in particular in private transport which crosses into the public domain—that is, bicycle ways. Millions of Australians are buying new bicycles each year. Without government direction, there has been a massive change in mood in the Australian community, as there has been worldwide. Bikeways are now at a premium. Bicycles are becoming a matter of new attention for people who used to ride. They can now and they are taking it up again. It has a social dividend, a health dividend, a lifestyle dividend and an environmental dividend where this money will be spent. We have been able to reach agreement on a \$40 million fund for bikeways across Australia. I might add that this is predicated on a much bigger allocation for bikeways under Infrastructure Australia. Government will be taking seriously such projects, with some of them worth tens of millions of dollars. I know that one in Sydney is worth some hundreds of millions of dollars. These will bring bikeways in Australia to the same level of serious government attention that we have seen in similar countries overseas. It is estimated that 500 to 700 jobs will be created in this allocation. These are green local jobs. The spin-off to local business is obvious. The spin-off as to the improved and enhanced lifestyles of towns and

<sup>44</sup> Source: Interim *Keep Australia Working* report released in July 2009. Similarly, the final *Keep Australia Working* report released on 16 October 2009 identified five outcomes to be achieved through nominated initiatives, three of which were to be funded through a re-targeting of the funding remaining available under the Local Jobs and Get Communities Working streams of the Jobs Fund.

<sup>45</sup> See paragraphs 1.2 to 1.3.

cities in Australia is going to be quite enormous, I predict, in the years to come.<sup>46</sup>

**1.11** In this context, the National Cycling Strategy 2005–2010 (published in 2005) had noted that all three spheres of government in Australia were spending in the order of \$100 million each year on cycling infrastructure and facilities, coordination and planning, road safety for cyclists and cycling promotion and education; and that this compared to more than \$5 billion being spent annually on new road infrastructure.<sup>47</sup> The stated purpose of the National Cycling Strategy was to coordinate the activities of the various governments and other stakeholders and provide a framework for collaboration and sharing best practice to make the most of the available funds.

## **Program funding**

**1.12** Following the announcement of the \$650 million Jobs Fund, it was determined that departmental costs to administer the respective elements of the program would be met from the total funding allocation. This meant that the \$40 million allocated to the bike paths component was not wholly available to fund the construction of bike paths. Rather, \$2.1 million (5.25 per cent of program funds) was set aside for departmental administrative costs, leaving \$37.9 million available for funding bike path construction projects. All of that funding was budgeted to be expended in the 2009–10 financial year.

## **Administering agencies**

**1.13** Administration of the Jobs Fund was shared between four agencies. DEEWR was the lead agency, and it was also responsible for administering the Get Communities Working stream and the non-quarantined component of the Local Jobs stream.<sup>48</sup> The then Department of the Environment, Water, Heritage and the Arts administered the quarantined heritage component of the Local Jobs stream. Following the Administrative Arrangements Order of 14 September 2010, that department became the Department of Sustainability, Environment, Water, Population and Communities (DSEWPaC), which

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<sup>46</sup> Senator Bob Brown, Senate Hansard, 12 February 2009, p. 899.

<sup>47</sup> Austroads, *The Australian National Cycling Strategy 2005–2010*, 2005, p. 3.

<sup>48</sup> The Department of Families, Housing, Community Services and Indigenous Affairs was also involved in the administration of applications considered under the quarantined Temporary Financial Assistance component of the Get Communities Working stream, and was a member of the joint departmental committee formed in relation to the Jobs Fund.

retained responsibility for the administration of approved heritage component projects.

**1.14** Up until September 2010, the then Department of Infrastructure, Transport, Regional Development and Local Government (DITRD LG) administered the quarantined bike path projects component of the Local Jobs stream. The Administrative Arrangements Order of 14 September 2010 created the Department of Regional Australia, Regional Development and Local Government.<sup>49</sup> December 2011 machinery of government changes saw this department become the Department of Regional Australia, Local Government, Arts and Sport (Regional Australia). Amongst other things, Regional Australia deals with the delivery of regional and rural specific services, regional development and regional Australia policy and coordination. Accordingly, staff and other resources of the Local Government and Regional Development Division within the former DITRD LG were transferred to Regional Australia. In large part, the resources and records associated with the bike paths component of the Jobs Fund were included in the Local Government and Regional Development Division of the former DITRD LG and are now included within the Program Delivery Division of Regional Australia's Programs and Engagement Group of Regional Australia.<sup>50</sup>

**1.15** In this context, for clarity of reference, throughout this report the administering agency for the bike paths component of the Jobs Fund at the relevant point in time is referred to as 'the responsible department' or 'the department'. Throughout this report, the Minister responsible for

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<sup>49</sup> At that time, the former DITRD LG became the Department of Infrastructure and Transport (Infrastructure). The IEP stream of the Jobs Fund had also been principally administered within the Infrastructure portfolio, with the then DITRD LG responsible for assessing projects that had been initiated by the Australian Government and making funding recommendations to the then Minister for Infrastructure, Transport, Regional Development and Local Government. Following the September 2010 machinery of government changes, responsibility for the IEP stream was briefly transferred to the Minister for Regional Australia, Regional Development and Local Government (to be administered by the Department of Regional Australia, Regional Development and Local Government). From November 2010, responsibility for the IEP stream returned to the Minister for Infrastructure and Transport (to be administered by Infrastructure).

<sup>50</sup> In December 2011, the Department of Infrastructure and Transport commented to ANAO that: 'The program that is the subject of the audit was established and implemented by this department in 2009. However, the function was transferred in full, including all staff and files, to become the responsibility of the Department of Regional Australia, Regional Development and Local Government during the machinery of government changes which took effect on 14 September 2010. The most recent machinery of government changes saw a further amendment of this name to the Department of Regional Australia, Local Government, Arts and Sport.'

administering the bike paths component of the Jobs Fund at the relevant point in time is referred to as the 'responsible Minister' or 'the Minister'.

## Audit objective, scope and criteria

**1.16** The objective of this audit was to assess the efficiency<sup>51</sup> and effectiveness of the establishment, implementation and administration of the bike paths component of the Local Jobs stream of the Jobs Fund, with a particular focus on the establishment of program objectives and the extent to which approved grants have demonstrably contributed to the cost-effective achievement of those objectives. The audit examined the application, assessment and approval processes applied in respect to bike path projects submitted to the first round of the Jobs Fund<sup>52</sup>, as well as the responsible department's oversight of the delivery of those approved projects that proceeded to have a funding agreement executed.

**1.17** The audit examined the program's establishment, implementation and administration against relevant policy and legislative requirements for the expenditure of public money<sup>53</sup> and the seven key principles for grants administration established by the Australian Government and set out in the

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<sup>51</sup> As an economic stimulus program, efficiency was assessed with particular attention to whether the application, assessment, decision-making and funding agreement processes were undertaken in a timely manner. This emphasis was consistent with the criterion adopted by the Government for the design of the stimulus packages established in response to the global financial crisis (see further at paragraph 4.20).

<sup>52</sup> The focus of this audit is on the 266 applications that were allocated to the quarantined bike paths component of the Local Jobs stream for assessment, of which 255 were ultimately retained within the bike paths component. A further 34 bike path project applications submitted in response to the first round of the Jobs Fund were ultimately assessed by DEEWR under the non-quarantined component of the Local Jobs stream after the outcome of the first round had been finalised under all components of that stream. These applications had not initially been referred to the bike paths component for assessment, and by the time such a referral occurred, were not accepted for assessment as the available funding under the bike paths component had been fully allocated. The circumstances relating to the receipt, allocation and assessment of those 34 bike path-related applications by DEEWR will be examined in the current performance audit examining the establishment, implementation and administration of the non-quarantined component of the Local Jobs stream.

<sup>53</sup> Commonwealth grant programs involve the expenditure of public money and thus are subject to applicable financial management legislation. Specifically, the *Financial Management and Accountability Act 1997* (FMA Act) provides a framework for the proper management of public money and public property which includes requirements governing the process by which decisions are made about whether public money should be spent on individual grants, including those made under the Jobs Fund.

*Commonwealth Grant Guidelines* (CGGs).<sup>54</sup> Particular emphasis was given to examining whether the bike paths component of the Local Jobs stream was achieving its stated objectives and providing value for public money, including through consideration of whether:

- advice to government from relevant departments on the design and implementation of the program was robust and timely;
- the business practices of the responsible department met policy and legislative requirements, including the *Financial Management and Accountability Regulations 1997* (FMA Regulations), the CGGs, relevant Finance Minister's Instructions and other government decisions;
- candidate projects were assessed and approved for funding in accordance with the principles outlined in the CGGs as well as published program guidelines;
- appropriate funding arrangements were established with approved funding recipients having regard for the size of the approved funding, the type of entity involved and the nature of the funded project; and
- approved projects have been monitored, delivered and subsequently reconciled in accordance with the terms and conditions of funding.

**1.18** The focus of this audit report is the \$40 million quarantined bike paths component of the Local Jobs stream of the Jobs Fund. Separate audits are being conducted in relation to the \$60 million quarantined heritage projects component (administered by DSEWPac), and the non-quarantined component of the Local Jobs stream (administered by DEEWR). A performance audit that

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<sup>54</sup> The seven key principles are: (1) Robust planning and design; (2) An outcomes orientation; (3) Proportionality; (4) Collaboration and partnership; (5) Governance and accountability; (6) Probity and transparency; and (7) Achieving value with public money (see Department of Finance and Deregulation, *Commonwealth Grant Guidelines—Policies and Principles for Grants Administration*, Financial Management Guidance No. 23, July 2009, p. 14). Following the introduction in December 2007 of interim measures to improve grants administration, the Government agreed in December 2008 to a suite of reforms, including the development of an improved framework for grants administration. These were given immediate effect through revised Finance Minister's Instructions issued in January 2009 and have now been reflected in the enhanced legislative and policy framework for grants administration that came into full effect on 1 July 2009. The new framework has a particular focus on the establishment of transparent and accountable decision-making processes for the awarding of grants, and includes new specific requirements under the financial management framework in relation to grants administration and the CGGs. Officials performing duties in relation to the administration of grants must act in accordance with the CGGs. The enhancements to the grants administration framework made since December 2007 applied to the design and establishment of the Jobs Fund. No projects were assessed or approved for bike paths component funding until after 1 July 2009, the date that the CGGs took effect.

examined the establishment, implementation and administration of the IEP stream of the Jobs Fund was tabled in September 2011.<sup>55</sup>

**1.19** Given the various agencies involved in the establishment and administration of the Jobs Fund, the audit was undertaken under section 18 of the *Auditor-General Act 1997*. The audit was conducted in accordance with ANAO auditing standards at a cost to the ANAO of \$277 000.

**Report structure**

**1.20** The audit findings are reported in the following chapters.

Chapter	Chapter Overview
2. Assessment of applications	Examines the approach taken to assessing applications allocated to the bike paths component, including the conduct of risk assessments which played a significant role in the assessment process as well as in subsequent funding decisions taken by the responsible Minister.
3. Assessment advice and funding decisions	Examines the process by which successful applications were identified under the bike paths component, and the resulting distribution of funding.
4. Program outcomes	Examines the administration of the project oversight arrangements adopted for the bike paths component, with a focus on the extent to which the program has demonstrably delivered economic stimulus outcomes.

<sup>55</sup> ANAO Audit Report No.7 2011–12, op. cit.

## 2. Assessment of applications

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*This chapter examines the approach taken to assessing applications allocated to the bike paths component. This includes the conduct of risk assessments, which played a significant role in the assessment process, as well as in subsequent funding decisions taken by the responsible Minister.*

### Introduction

**2.1** The then Minister for Employment Participation announced a public call for applications to the first round of the Jobs Fund on 18 April 2009, with applications to close on 22 May 2009.<sup>56</sup> The application form did not provide applicants with the capacity to nominate which stream (or component within a stream) of the Jobs Fund they wished their project to be considered under. Rather, applications were submitted to DEEWR. That department then either assessed the application under the streams for which it was responsible, or allocated it to another administering department, depending upon the stream (and associated component) DEEWR considered most appropriate to the proposed project.

**2.2** A total of 266 applications, seeking funding totalling around \$114 million, were allocated by DEEWR for assessment under the bike paths component. Seven applications were later returned to DEEWR for assessment under a different part of the Jobs Fund because either they did not involve eligible bike path construction works (four projects)<sup>57</sup>, or the bike path work proposed in the application was one component of a larger infrastructure construction project (three projects).

**2.3** During the assessment stage for the bike paths component, a further four applications were withdrawn by the relevant proponents. In two instances, the applications were withdrawn at the request of the responsible department after it had identified that it was unlikely the project would be completed by 30 June 2010 (the cut-off date for eligibility under the bike paths component). In another instance, the proponent intended to commence work

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<sup>56</sup> Media Release, *Applications for First Round of \$650 million Jobs Fund Open*, The Hon Brendan O'Connor MP, Minister for Employment Participation, 18 April 2009.

<sup>57</sup> In three instances, the proposed works involved the construction of a footpath, but not a dual use/shared use path. In a further instance, the project involved construction of a shed/shower block at the end of a bike path.

on the relevant project in August 2009<sup>58</sup> and, after being advised by the department that funding decisions under the bike paths component were not expected to be made before the end of August, asked that its application be withdrawn. In the final instance, the proponent asked that its application be withdrawn because construction work on the relevant project was already underway.

## **Proposed shortlisting of applications**

**2.4** ANAO Audit Report No.3 2010–2011 examined the establishment, implementation and administration of the Strategic Projects component of the Regional and Local Community Infrastructure Program (RLCIP) (another stimulus program introduced in response to the global financial crisis). Similar to the bike paths component of the Local Jobs stream, that program was also administered by the then DITRDLC, with responsibility also being subsequently transferred to Regional Australia (see paragraph 1.14).

**2.5** The Strategic Projects component was a competitive grant program for which funding decisions were finalised in April 2009. A significant matter raised by ANAO in the July 2010 audit report on that program was that eligible, compliant applications were excluded from being fully considered for funding due to the use of shortlisting criteria that were not settled until after applications had closed and which had not been included in the published program guidelines.<sup>59</sup> In addition, the shortlisting process was used to identify which projects would undergo individual risk assessments, rather than to identify which projects were to undergo an assessment of competing applications' relative merits. While the risk assessment results were provided to the responsible Minister, the department did not make any recommendations as to which projects should be approved within the available Strategic Projects component funding.<sup>60</sup>

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<sup>58</sup> This project was intended to be undertaken in part using funds provided under the Council Allocation component of the Regional and Local Community Infrastructure Program (RLCIP).

<sup>59</sup> ANAO Audit Report No.3 2010–11, *The Establishment, Implementation and Administration of the Strategic Projects Component of the Regional and Local Communities Infrastructure Program*, Canberra, 27 July 2010, p. 21.

<sup>60</sup> Audit Report No.3 noted that this was a significant failing on the part of the department given that, since December 2007, the enhanced grants administration framework had required agencies to provide advice to Ministers on the merits of grant applications relative to the guidelines of the program (ibid., pp 21–22.)



**2.6** The responsible department proposed that a similar shortlisting approach be adopted for the bike paths component of the Jobs Fund. Specifically, on 29 July 2009 the department provided its Minister with a list of all 266 applications allocated to the bike paths component for assessment. The department advised the Minister that, based on its initial assessment, 160 projects (seeking funding totalling \$57 million) appeared to meet all requirements under the program<sup>61</sup>, and recommended that the Minister agree to an assessment process that included the department:

- undertaking a full assessment of those 160 projects only, with the Minister to be provided with a summary and risk assessment of each project ‘using a similar process to that used in the Community Infrastructure Program (Strategic Projects) component’; and
- inviting the Minister to identify additional projects from the 106 non-shortlisted applications for consideration for funding should he wish to do so. In this respect, the department advised the Minister that: ‘under the program guidelines it is permissible for the department to work

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<sup>61</sup> For each application, the list provided to the Minister identified the project title, applicant, amount sought, state, Priority Employment Area in which the project was located (if any), and the initial assessment against each of eight criteria that the responsible department had derived from the program guidelines. The 160 projects that the department advised the Minister appeared to meet all program requirements were differentiated from the 106 applications that had not been so assessed. On 13 August 2009, the department provided the Minister with a revised list of projects, which provided the same information for each application as set out in the earlier brief, but with an additional column indicating whether the application met the expectation outlined in the guidelines that there be a joint funding contribution of at least 50 per cent—despite this expectation having been stipulated in the program guidelines, the earlier advice to the Minister had not included any assessment of applications against this criterion. Compared to the 29 July 2009 list, the number of projects identified as appearing to meet all program requirements was reduced from 160 to 158.

with applicants to improve promising projects, for example to bring projects within the \$2 million cap and/or one year time-frame'.<sup>62</sup>

**2.7** The published program guidelines stated that each proposal submitted to the competitive streams of the Jobs Fund would be assessed on its merits, and in comparison to other projects submitted at the same time or previously. The guidelines did not outline that there would be any shortlisting of applications under the bike paths component (or more generally across the Jobs Fund), and, accordingly, did not include any shortlisting criteria.

**2.8** The responsible Minister did not agree to the department's recommended shortlisting approach. Instead, the Minister required that all applications allocated to the bike paths component be subject to a full assessment, an approach that was consistent with the published guidelines.<sup>63</sup> The Minister also did not act upon the department's suggestion that he ask the department to work with proponents of projects that had sought more than \$2 million, and/or projects that the application had indicated would not be

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<sup>62</sup> In providing this advice, it appears that the department was relying upon the provision in the program guidelines stating that: 'The development of proposals by proponents will be an iterative process where the departments will work with proponents where necessary to refine promising proposals.' However, the lead agency for the Jobs fund (DEEWR) did not similarly view that provision as providing capacity for agencies to seek to bring submitted applications within the program parameters. For example, the guidelines also stated that funding under the Local Jobs and Get Communities Working streams would be determined on a case-by-case basis to a maximum of \$2 million per project. There was no upper funding limit for projects under the IEP stream. In allocating applications received under the first round of the Jobs Fund to the various streams for assessment, DEEWR determined that applications seeking greater than \$2 million were ineligible for consideration under the Local Jobs and Get Communities Working streams and, accordingly, (in most cases) allocated infrastructure-related projects that it determined to be seeking greater than \$2 million to the IEP stream for assessment. In this respect, in June 2011 DEEWR advised ANAO that, under the published guidelines, departments and Ministerial decision-makers or their delegates did not have the capacity to consider partial funding of \$2 million for applications that sought more than \$2 million. DEEWR further advised that: 'Given: that the Guidelines were extremely clear about the maximum amount of funding available, the volume of applications received (in excess of 2 000 in the case of Local Jobs alone), and the imperative of the program to get projects up and running as quickly as possible in order to create and retain jobs, the suggestion that the relevant Departments should have entered into negotiations with such applicants to scale back their proposals would have been contrary to principles of efficiency and effectiveness. In addition, entering into such a process would have drawn criticism that the Guidelines were not being adhered to, as well as legitimate complaints from other applicants (both potential and actual) that they had been denied natural justice because they were not aware that they could submit proposals for more than \$2 million.' (See further at ANAO Audit Report No.7 2011–12, op. cit., pp. 73–75.)

<sup>63</sup> As it eventuated, 61 of the 106 applications that the responsible department had proposed not be shortlisted for a full assessment were ultimately approved under the bike paths component. By way of comparison, of the 160 applications that the department had proposed to shortlist, 114 were ultimately approved for funding, but 46 were not approved. Accordingly, the decision not to adopt the shortlisting process proposed by the department had a significant effect on the identity of the applications that were ultimately approved (the selection of successful applications is discussed further in Chapter 3 of this report).

completed within the one-year program timeframe, so as to bring these projects within the published program parameters.<sup>64</sup>

## Assessment criteria

**2.9** As outlined in the ANAO Better Practice Guide—*Implementing Better Practice Grants Administration* (ANAO's Better Practice Guide), selection criteria form the key link between a grant program's stated objectives and the outcomes that are subsequently achieved from the funding provided.<sup>65</sup> In this context, selection criteria fall into two main groups, as follows:

- threshold criteria are the criteria that a proposal must satisfy in order to be considered for funding. These are also variously expressed as 'eligibility criteria', 'mandatory criteria', 'compliance criteria' or 'gateway criteria'; and
- assessment criteria are the criteria against which all eligible, compliant proposals will be assessed in order to determine their merits against the program objectives and, for competitive programs, other competing applications.<sup>66</sup>

**2.10** As outlined at paragraph 1.7, the Jobs Fund guidelines included common eligibility criteria that applied to all streams. These primarily comprised the target areas and gateway criteria, but the guidelines also stated that:

- all projects must demonstrate that the activities to be funded were clearly additional to those that would have occurred in the absence of the funding under the Jobs Fund;

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<sup>64</sup> As discussed further at footnote 137, in providing the responsible Minister with the results of its assessment of projects allocated to the bike paths component in September 2009, the responsible department informed the Minister that its assessment was that 182 of the 255 applications met all the criteria of the Jobs Fund guidelines, and further advised the Minister that: 'Where projects were initially considered ineligible they have been contacted and given the chance to reconsider their proposals and provide additional information.' However, this process had not involved either of the two projects which had sought more than \$2 million reducing the amount of funding requested to come within the \$2 million maximum. Both were assessed by the responsible department on the basis of the funding amounts originally sought. Neither was approved for funding. Similarly, none of the 13 projects that the responsible department had assessed would not spend the requested bike paths component funding by 30 June 2010 were approved for funding.

<sup>65</sup> ANAO Better Practice Guide, *Implementing Better Practice Grants Administration*, Canberra, June 2010, pp. 61–62.

<sup>66</sup> *ibid.*

- funding was not available retrospectively, and a proponent must not begin project activities dependent on the Jobs Fund funding before a funding agreement had been signed; and
- funding would not be provided for projects where there were other sources of Commonwealth funding readily available or for reimbursement of service/activities that were already funded through other sources of Government funding.<sup>67</sup>

**2.11** The guidelines also identified further eligibility criteria that were specific to the bike paths component. As set out in Figure 2.1, the guidelines identified the types of projects, and expenditure within those projects, that would be eligible for funding through the bike paths component; as well as stipulating that:

- proponents needed to demonstrate how the project would:
  - create local jobs; and
  - provide alternative transport options; and
- a joint funding contribution of 50 per cent would be expected.

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<sup>67</sup> The guidelines further stipulated that funding would not be provided for activities that breached occupational health and safety or public safety.

**Figure 2.1****Eligibility criteria specific to the bike paths component of the Local Jobs stream of the Jobs Fund**

Bike path funding may be provided for new, extensions or refurbishment of existing:

- off-road bike paths (but not dedicated mountain bike trails);
- on-road bike lanes (e.g. road-widening and marking bike lanes on an existing road); and
- bicycle parking facilities.

Funding can be used for:

- construction;
- project management costs; and
- payment of salary/wages and employee on-costs for additional people employed on the project.

The majority of funding must be used for construction.

For bike path related project proposals, proponents need to demonstrate how the project will create local jobs and provide alternative transport options. A joint funding contribution of 50 percent will be expected.

Source: Jobs Fund Guidelines, April 2009, p. 9.

**2.12** Against this background, the responsible department derived eight criteria from the guidelines (including the three gateway criteria)<sup>68</sup> against which it assessed each application allocated to the bike paths component by DEEWR. For each project, the department also advised the responsible Minister of:

- the extent to which the application involved partner funding—as noted in Figure 2.1, the guidelines had stated that partner funding of at least 50 per cent was expected for bike path projects. However, the responsible department’s assessment methodology did not identify this as a threshold criterion that applications would need to satisfy in order to be eligible for funding (discussed further at paragraphs 2.14 to 2.19);
- the number of jobs the applicant claimed the project would create or cause to be retained (with separate categories for short-term jobs<sup>69</sup>,

<sup>68</sup> A comparison of the requirements outlined in the Jobs Fund guidelines with the criteria applied by the responsible department in relation to the bike paths component is set out in Appendix 1.

<sup>69</sup> Short-term jobs were jobs lasting less than six months.

long-term jobs<sup>70</sup>, work experience positions and traineeships) (discussed further at paragraphs 2.44 to 2.63); and

- whether the department had identified any risks associated with funding the project and, if so, whether those risks were considered acceptable<sup>71</sup> and able to be managed through the funding agreement. In this respect, the published guidelines had stated that ‘projects will be subject to due diligence and risk assessment by the departments as appropriate’ (discussed further at paragraphs 2.73 to 2.99).

**2.13** However, application of the published general and bike paths-specific eligibility criteria alone was insufficient to support a transparent and consistent assessment of the overall merit of competing bike path proposals (discussed further at paragraphs 2.38 to 2.68).<sup>72</sup>

## **Partnership funding**

**2.14** Partnership funding arrangements involve a project being financed from a range of different sources. It can also involve a project being divided into different components, so as to obtain funding from more than one source in order to deliver the overall project. In this context, as noted, the Jobs Fund program guidelines had stated that:

For bike path related project proposals, proponents need to demonstrate how the project will create local jobs and provide alternative transport options. A joint funding contribution of 50 percent will be expected.

**2.15** A specific partner funding expectation was not outlined in the program guidelines in respect to any other component of the Local Jobs stream, or the other streams of the Fund.<sup>73</sup>

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<sup>70</sup> Long term jobs were jobs lasting more than six months.

<sup>71</sup> Identified risks were rated as either a very low, low, moderate, high or severe risk (pre-treatment), together with a post-treatment rating on the basis of the risk mitigation measures proposed to be taken should the project be approved for funding. Both the pre- and post-treatment risk ratings were advised to the responsible Minister.

<sup>72</sup> See further in ANAO Audit Report No.7 2011–12, op. cit., pp. 67–68.

<sup>73</sup> In this respect, the guidelines stated that, within each of the four target areas, preference would be given to projects that demonstrated one or more of a number of listed characteristics, one of which was: ‘include a contribution of funds, or in kind contributions to supplement the amount sought in the project proposal’. However, this was not a requirement in order for a project to be considered for funding. Further, the guidelines did not identify any relative weighting between the listed characteristics, or whether a project that demonstrated a higher number of the listed characteristics would be preferred to those that demonstrated fewer of the characteristics (see further in ANAO Audit Report No.7 2011–12, op. cit., pp. 67–68.)

**2.16** Stipulating in published program guidelines the level of partner funding that applicants will be expected to provide can be expected to influence not only the form of proposals that are subsequently put forward, but also the decisions made by potential applicants as to whether they will submit an application. In the interests of fairness and equity, therefore, it is important that the assessment and selection process pays due regard to the expectation that had been set out in the published guidelines.

**2.17** In the case of the bike paths component, the significance of the statement in the program guidelines concerning the minimum level of partner funding expected for bike path projects was generally recognised by applicants. In this respect, 233 (88 per cent) of the 266 applications that were initially allocated to the bike paths component had included a project budget that involved partnership funding of at least 50 per cent of the estimated total project costs (see Table 2.1). Of those 233 applications, 217 (93 per cent) involved partner funding of more than 50 per cent but less than 60 per cent of the estimated project costs, indicating that proponents viewed this as a threshold criterion that was required to be met, but that higher percentages of partner funding would not increase their chances of success.

**2.18** However, as noted at paragraph 2.12, the responsible department did not consider that the statement in the program guidelines regarding a minimum of 50 per cent in partner funding represented a threshold criterion against which the eligibility of applications for funding consideration needed to be assessed (and the Minister advised). This was despite that provision having been included in the guidelines at the specific request of the then DITRDLG, which had advised DEEWR that 'bike paths proponents will have to put in a 50 per cent contribution'. In this respect, the project summaries provided to the responsible Minister for each project (an example of which is included at Appendix 2) provided factual information as to the proportion of partner funding that had been proposed by the applicant. However, as illustrated in the example at Appendix 2, where this proportion was less than 50 per cent of total estimated costs for a particular project, the Minister's attention was not drawn to the fact that this meant that the expectation outlined in the program guidelines had not been met.

**2.19** As illustrated by Table 2.1, the consequences of this approach were that 15 of the 175 applications ultimately approved did not meet the expectation that projects funded through the bike paths component would be, as a minimum, 50 per cent funded by parties other than the Commonwealth. The relevant projects, which are shaded grey in Table 2.1, represented some nine

per cent of approved applications, involving 13 per cent of the total approved funding.

**Table 2.1**

**Partner funding contributions: applications allocated to the bike paths component for assessment and approved for funding**

Partner funding %	Applications allocated for assessment		Applications approved	
	Number	\$ applied for	Number	\$ approved
Fully Australian Government funded	2	662 734	1	179 682
Less than 25%	10	11 722 530	3	1 078 199
25% to less than 50%	21	10 257 956	11	3 760 439
50% to less than 75%	232	91 111 424	159	33 576 636
75% to 99.9%	1	242 500	1	242 500
<b>Total</b>	<b>266</b>	<b>113 997 144</b>	<b>175</b>	<b>38 837 456</b>

Source: ANAO analysis of Regional Australia data.

Note: the value of approved applications exceeds the available program funding (\$37.9 million). This was because, initially, 174 projects were approved in October 2009 for a total of \$37.87 million. However, funding offers for three of these projects were withdrawn prior to the funding agreement being signed (once it emerged that the projects had either been completed, or were substantially complete), with a further project (to the value of \$967 000) then being approved in December 2009 using the funds that had become available.

## Component-specific objectives and criteria

**2.20** As noted in paragraph 1.6, although the three principal streams of the Jobs Fund each had their own particular focus, in each case the primary objective was to support and create jobs and employment opportunities in communities affected by the global recession and for disadvantaged job seekers through the funded projects. In this context, in June 2011, DEEWR advised ANAO that:

The intent of the Jobs Fund was to support Australians at the time of economic crisis while delivering long term community infrastructure, heritage, environment and social outcomes. The program guidelines were specifically developed to provide overarching guidance, principles and criteria while enabling individual departments to focus on maximising program objectives within the areas relevant to their portfolio and expertise.

While DEEWR led the departments' collaborative work on guidelines, funding agreements and other processes, it was envisaged that each department would



tailor its selection processes to achieve the required outcomes of each portfolio involved in the Jobs Fund, for example Heritage.

**2.21** In that respect, the published guidelines outlined that projects considered for funding in 2009–10 under the quarantined heritage component of the Local Jobs stream would be assessed against both the common criteria that applied across all elements of the integrated Jobs Fund, as well as heritage-specific criteria. Specifically, the guidelines stated that:

For heritage-related project proposals, in addition to demonstrating how the project delivers employment and economic benefits that are supported by local communities, proponents will also need to demonstrate that the project will deliver positive heritage outcomes. Issues which will be taken into consideration in assessing heritage outcomes include:

- does the project contribute to the heritage values of a place, including conservation, protection, adaptation or interpretation works
- is the project consistent with the principles of the Burra Charter, management plans currently in place, and state, territory and Commonwealth legislation
- to what extent does the project contribute to one or more of the priority heritage themes identified by the Australian Heritage Council, and include elements designed to promote awareness of the activity, and of the social and economic value of the heritage property, and
- does the project provide ongoing direct and indirect social and economic benefits in the community, such as by increasing tourism, or increasing the appropriate utilisation/value/rental returns of heritage properties.<sup>74</sup>

**2.22** However, a similar approach was not taken in respect to the development of assessment criteria to be applied in relation to the selection of successful applications to the bike paths component of the Local Jobs stream.

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<sup>74</sup> The application of these criteria and the assessment and decision-making processes undertaken in respect to the heritage component will be examined in more detail in a separate performance audit of the establishment, implementation and administration of the heritage component of the Local Jobs stream currently underway.

## *Methodology for the selection of bike path projects*

**2.23** To promote the use of bicycles, in 2005 the then Department of Transport and Regional Services<sup>75</sup> provided funding to the Australian Bicycle Council<sup>76</sup> to prepare a report on the prioritisation of bicycle infrastructure funding proposals. In relation to the development of national priorities, that report (which was first published in 2006 and re-issued in 2008) concluded that:

Current Australian practice in the area of bicycle infrastructure project evaluation is heavily reliant of [*sic*] multi-criteria analyses in the best cases, and subjective internal rankings in the worst.

Current international practice varies greatly, reflecting the different institutional and geographic situations in which bicycle infrastructure prioritisation takes place.

Current best practice in project evaluation points to less prescriptive frameworks which allow for qualitative and quantitative measures to be incorporated into the decision making process.

Consultation with stakeholders has shown that the key priority in cycling infrastructure is the completion of the strategic networks. Any new framework or prioritisation tool will need to reflect this.<sup>77</sup>

**2.24** The major objective of the Australian Bicycle Council project funded by the Australian Government was to develop a methodology that would:

improve the allocation of financial resources to bicycle infrastructure projects, through more effective prioritisation of proposals within a bicycle works program. The ranking process enables an improved assessment of bicycle

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<sup>75</sup> Following the 2007 election, that department became the then DIRTDLG, which undertook the assessment process for the bike paths component of the Jobs Fund. As noted, the relevant division subsequently became part of Regional Australia following the 2010 election.

<sup>76</sup> The Australian Bicycle Council is the national body that manages and coordinates implementation of the National Cycling Strategy. The Australian Bicycle Council's secretariat is provided by Austroads (which is the association of Australian and New Zealand road transport and traffic authorities and included DITRDG, and now includes Infrastructure, as a member). In April 2009, under the provisions of the *AusLink (National Land Transport Act) 2005*, the Infrastructure Minister approved Commonwealth funding to Austroads of \$646 000 between 2009–10 and 2013–14 for secretariat support to the Australian Bicycle Council. This funding was in addition to general funding of \$14.769 million for Austroads, also approved in April 2009.

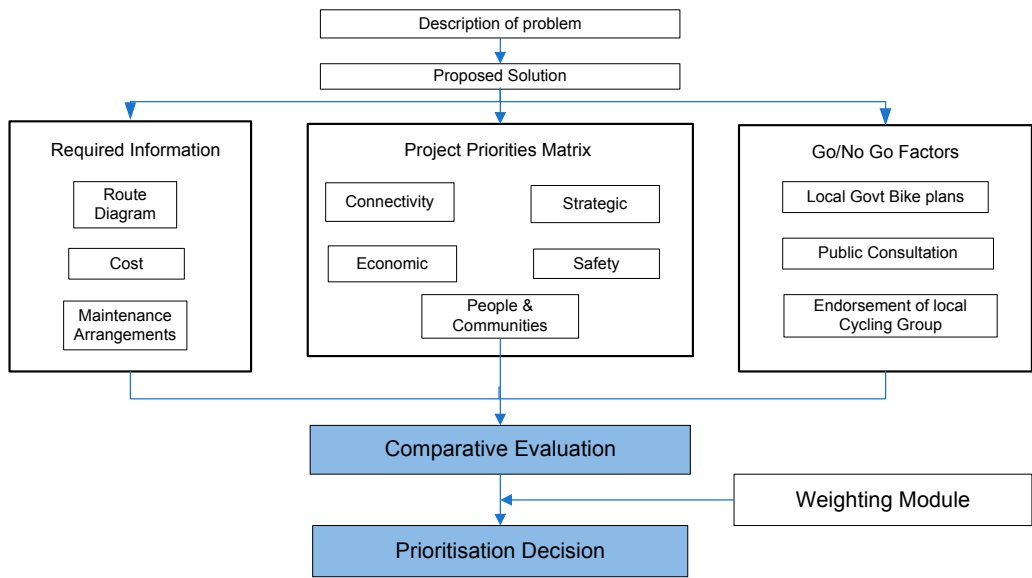
<sup>77</sup> Australian Bicycle Council and the Department of Infrastructure, Transport, Regional Development and Local Government, *Prioritisation of Bicycle Infrastructure Proposals*, 2008, p. 13.

infrastructure proposals against criteria that identify, describe and provide qualitative and quantitative assessments of the likely impacts.<sup>78</sup>

2.25 Accordingly, the published report included a decision support methodology that was intended to allow decision-makers to prioritise bicycle infrastructure funding applications in an ‘informed, transparent and accountable manner’.<sup>79</sup> Figure 2.2 outlines the methodology identified by the Australian Bicycle Council report.

**Figure 2.2**

**Methodology framework for prioritising bicycle infrastructure funding proposals**



Source: Australian Bicycle Council and the Department of Infrastructure, Transport, Regional Development and Local Government, *Prioritisation of Bicycle Infrastructure Proposals*, 2008, p. 1.

2.26 As indicated by Figure 2.2, an element of the published decision support methodology was a project priorities matrix that explicitly recognised that the highest priority in cycling infrastructure in Australia is the development of strategic networks, particularly the completion of missing sections in the networks so as to provide long-route connectivity.<sup>80</sup>

<sup>78</sup> *ibid.*, p. 1.

<sup>79</sup> *ibid.*, p. ii.

<sup>80</sup> *ibid.*, p. 11.

**2.27** Consistent with this priority, the Jobs Fund guidelines had stated that applicants for bike paths component funding would need to demonstrate how the project would provide alternative transport options. However, the responsible department did not, either in contributing to the development of the guidelines or in advice provided to its Minister, canvass the merits of identifying criteria that would enable it to assess the relative merits of competing applications in terms of providing alternative transport options (as well as meeting the economic stimulus gateway criteria and target areas).<sup>81</sup> Instead, as illustrated in Appendix 1, the requirement set out in the guidelines was not specifically addressed in the assessment of bike path applications, with the department's procedures not requiring a view to be formed as to whether (or how well) a project would provide alternative transport options. Nor was advice in that regard provided to the responsible Minister to inform his decision-making. A consequence of this approach was that certain of the projects that were ultimately approved had not proposed to provide or enhance any alternative transport options.<sup>82</sup>

### *Engagement with Infrastructure Australia*

**2.28** In designing and administering the bike paths component, the responsible department also did not consider work undertaken by Infrastructure Australia in respect to the funding of bicycling infrastructure projects. This was despite this work having been explicitly referenced as part of the commitment made by the Government to the Australian Greens to establish the \$40 million bike paths component of the Jobs Fund. Specifically, in correspondence of 12 February 2009 tabled in the Senate that same day, the Treasurer advised the Leader of the Australian Greens that:

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<sup>81</sup> In addition, whilst assessment against the heritage-specific criteria was supported by the application form including a specific section requiring relevant information to be provided by proponents of heritage-related projects, the application form did not seek any bike paths specific information from applicants. Instead, while asked to describe their project, it was left to the discretion of applicants as to the type, and extent, of information provided in relation to the parameters of the project for which funding was sought.

<sup>82</sup> For example, a grant of \$179 682 was awarded to meet the full estimated costs of Sunshine Coast Regional Council constructing an 850 metre long, five metre wide criterium circuit at Skippy Park in Landsborough, Queensland. A criterium is a bicycle race held on a short course, usually less than 5 km long, in which competitors compete over a number of laps. Reflecting the intended use of the course proposed for construction, the application had outlined that, rather than providing an alternative transport option, the criterium circuit would provide a new recreation facility in that it would 'provide a unique off-road recreational, fitness and/or competition course for residents and visitors.' In addition, as illustrated in Table 2.1, this application had also not met the expectation outlined in the published guidelines that projects would be, as a minimum, 50 per cent funded by other parties. Instead, the application had proposed that the cost of the project would be fully funded by the Australian Government through the bike paths component of the Jobs Fund.

The government is prepared to quarantine a downpayment of \$40 million for projects involving the construction of bike paths, in recognition of the fact that Infrastructure Australia will consider more significant investments in bike paths in the period ahead.

**2.29** In March 2009, a report was provided by Infrastructure Australia to its Council as a result of a request from the Australian Government for advice on how to ‘best facilitate the modal shift towards cycling as a viable and sustainable means for commuting, local trips and recreation’. Infrastructure Australia’s report concluded that:

The small policy steps undertaken to date in Australia have failed to increase the share of cycling during a period when other countries, particularly in western Europe, have achieved substantial increases.

The countries that have successfully increased cycling as a mode share have had specific, measurable policies, cross-integration of relevant government agencies, and made major investments into cycling-related infrastructure and education.

**2.30** The report noted that \$40 million of the \$42 billion stimulus package had been committed to cycling infrastructure, and that submissions received by Infrastructure Australia for cycling-related infrastructure, up to March 2009, had totalled some \$603 million. In April 2011, Infrastructure Australia advised ANAO that these submissions, whilst deemed ‘worthy of merit’, had not included sufficient information (including credible cost-benefit analyses) to meet Infrastructure Australia’s criteria. In this latter respect, Infrastructure Australia’s March 2009 report to its Council included advice on design parameters for a program of funding for cycling infrastructure, including that:

Projects would be selected on merit through a competitive bid process against the following criteria [in addition to a comprehensive Benefit Cost Ratio analysis]:

- a. Increase bicycle users for commuter and short trip journeys;
- b. Strategic alignment with existing Metropolitan Plans and/or integrated transport strategies;
- c. Demonstrate cross-jurisdictional and cross-portfolio collaboration;
- d. Connection to major trip generators, for example public transport, employment, education and service centres; and
- e. Provision of supporting programs, including facilities such as secure bike storage, and community education (bicycle safety, route advice etc.).

**2.31** These criteria were consistent with the parameters for prioritising bicycle infrastructure proposals that underpinned the Australian Bicycle Council's decision support methodology (see Figure 2.2). However, in addition to not considering the extent to which the methodology outlined in the *Prioritisation of Bicycle Infrastructure Proposals* report may have been of value, the responsible department did not seek any advice from Infrastructure Australia on better practice processes to employ in assessing bike path projects.

**2.32** In September 2010, a new National Cycling Strategy was released, which included a goal to double the number of people cycling in Australia by 2016.<sup>83</sup> The National Cycling Strategy also included a number of priorities and objectives. In respect to the 'infrastructure and facilities' priority, the objective is to 'create a comprehensive and continuous network of safe and attractive routes to cycle and end-of-trip facilities'. For this priority, there are three action items in the current National Cycling Strategy, as follows:

- All jurisdictions will continue to invest in developing local on-road and off-road cycling networks to key destinations in both urban and rural areas that are consistent with national standards, and should commit to the identification of required funds in the relevant budget processes.<sup>84</sup>
- States, territories and local government will continue to develop end-of-trip facilities that make it possible for people to cycle, including considering the introduction of regulations, such as planning policies and building standards, to mandate the provision of facilities.
- Austroads will ensure that its guides recognise and promote best practice in the design and provision of cycling infrastructure and facilities.

**2.33** Consistent with the first action item in the National Cycling Strategy, in April 2011 Infrastructure Australia advised ANAO that:

Infrastructure Australia believes there is merit in requiring all funding under Nation Building II to integrate appropriate bike path infrastructure, particularly where such infrastructure is located in cities or towns. There may

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<sup>83</sup> Austroads, *The Australian National Cycling Strategy 2011–2016*, 2010, p. 5.

<sup>84</sup> In respect to this action item, the Strategy further outlined that: 'The first action is therefore for the Commonwealth, state, territory and local governments to continue to invest in cycling networks and associated facilities. Specifically, each jurisdiction should commit to the identification of dedicated funds for cycling in the relevant budget process, in addition to funds for cycling contained in other spending, for instance funds to build cycle lanes alongside new roads.'

also be merit in allocating a portion of funding under the Nation Building II program for additional bike path projects that are not necessarily tied to other Nation Building projects.

## Conclusion

**2.34** Whilst the primary objective of the Jobs Fund was to support and create jobs and employment opportunities in communities affected by the global recession and for disadvantaged job seekers, quarantined funding of \$40 million for bike path construction projects was expected to also assist with the adoption of an alternative transport option to motor vehicles. Similarly, quarantined funding for heritage projects was expected to provide stimulus as well as promote the achievement of improved heritage outcomes.

**2.35** In respect to the quarantined heritage component of the Local Jobs stream, the published guidelines outlined that projects to be funded in 2009–10 would be assessed against both the common criteria that applied across all elements of the integrated Jobs Fund, as well as heritage-specific criteria. By way of comparison, the responsible department did not, either in contributing to the development of the Jobs Fund guidelines or in advice provided to its Minister, canvass the merits of similarly identifying criteria that would enable it to assess the relative merits of competing applications in terms of providing alternative transport options (as well as meeting the economic stimulus gateway criteria and target areas). Accordingly, the approach taken to the bike paths component represented a missed opportunity to maximise the contribution the \$37.9 million<sup>85</sup> in funding available for bike path construction could make towards achieving the objectives of the National Cycling Strategy.

## Recommendation No.1

**2.36** ANAO recommends that Australian Government agencies responsible for administering any future grant programs involving the construction of cycling infrastructure seek government concurrence to the inclusion in the relevant program guidelines of application processes and assessment criteria that will support the selection of projects that are likely to best contribute to achieving the objectives of the National Cycling Strategy.

**2.37 Regional Australia response:** Agreed.

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<sup>85</sup> See paragraph 1.12.

## Assessment process

**2.38** As noted in ANAO's Better Practice Guide, an important aspect of achieving value for money in a grant program is establishing an assessment process that is efficient and effective in that it supports both:

- timely completion of the decision-making process; and
- robust assessment of grant proposals based on appropriate analysis and due diligence, having regard for the nature of the program and the program guidelines.<sup>86</sup>

**2.39** It is also important for careful consideration to be given to the method and scale that will be applied in rating and (for competitive selection processes) ranking individual applications.<sup>87</sup> The process should provide for the consistent application of the selection process outlined in the published guidelines. Based on the results of that assessment process, agencies are then able to appropriately advise the program decision-maker on the merits of grant proposals. In this respect, since December 2007, the enhanced grants administration framework has required that, where Ministers undertake the role of decision-maker, they are to receive agency advice on the merits of a proposed grant before deciding whether to approve the grant or not.<sup>88</sup>

### Different assessment methodologies adopted across the integrated Jobs Fund

**2.40** Although the Jobs Fund was intended to operate as an integrated program under a common set of gateway criteria, the administering departments did not adopt consistent approaches to the assessment of proposals being considered for possible funding.

**2.41** For example, in administering the Get Communities Working stream and non-quarantined component of the Local Jobs stream, DEEWR assessed the extent to which each proposal met each of the gateway criteria, using a five point rating scale (and each target area, using a three point scale). After undergoing a moderation and quality assurance process, those scores were then used to rank competing applications (grouped by Priority Employment

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<sup>86</sup> ANAO Better Practice Guide, op. cit., p. 71.

<sup>87</sup> *ibid.*, p. 75.

<sup>88</sup> See further at paragraphs 3.1 and 3.9 to 3.22.



Area) for consideration by an assessment review committee, which then formed recommendations for consideration by the departmental decision-maker.<sup>89</sup>

**2.42** As part of the discussions that occurred between departments in relation to establishing the assessment approach each would use for round one of the Jobs Fund, the department responsible for the bike paths component was provided with documentation relating to the assessment methodology developed by DEEWR. Departmental documentation indicates that the department originally intended to adopt a similar scoring system for the assessment of applications under the competitive bike paths component. However, as it eventuated, that approach was not adopted. Instead, the responsible department applied an approach in which applications were assessed as either meeting various threshold criteria identified in the program guidelines (and therefore being considered capable of being funded should the responsible Minister so choose), or as not meeting one or more of the threshold criteria.

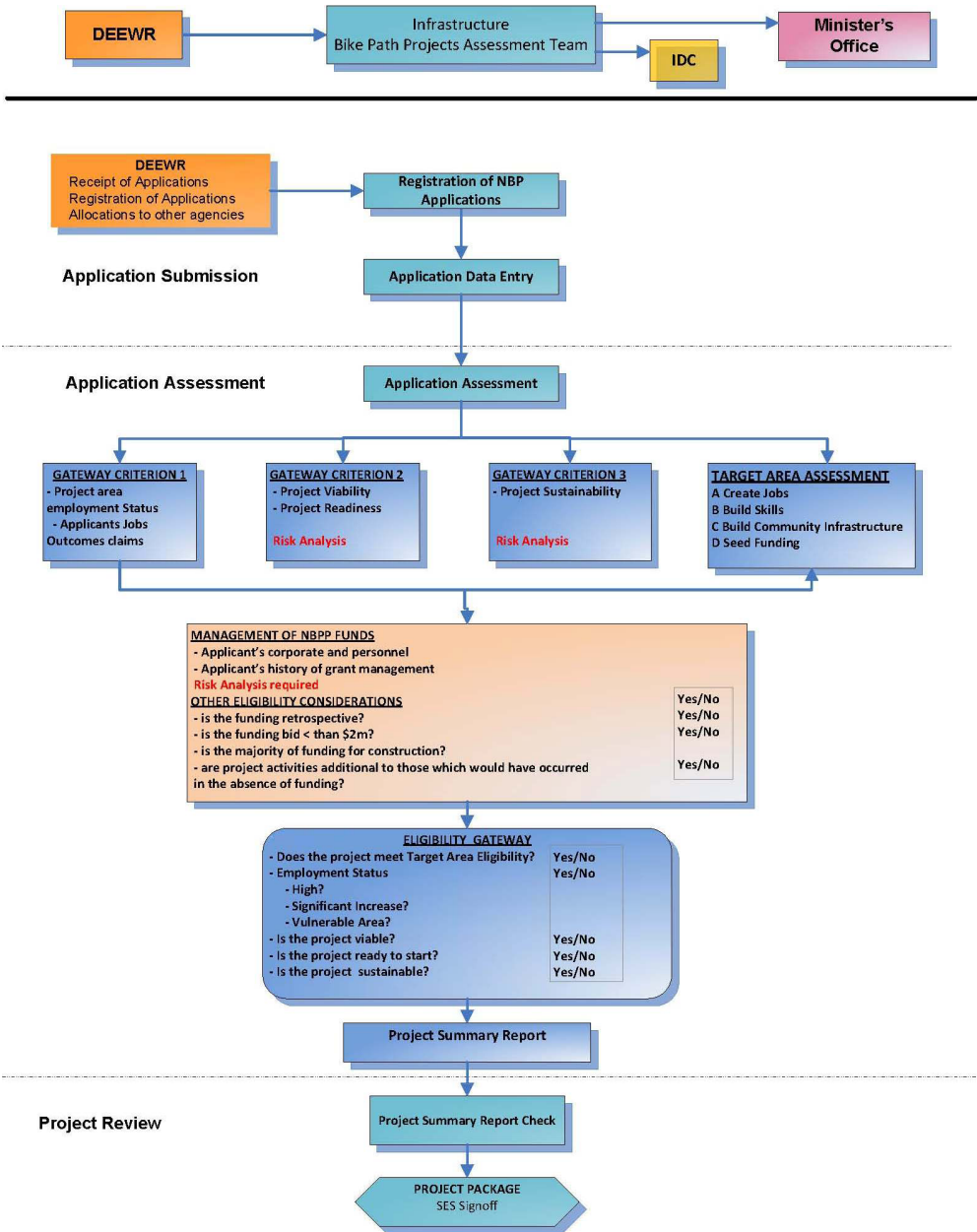
**2.43** Under the assessment methodology adopted (see Figure 2.3), the responsible department did not undertake any analysis of each eligible and compliant application's overall quality in contributing to the stated program objectives. Rather, the department limited itself to identifying whether, for each project, each of the threshold criteria could be viewed as having been met to a minimum standard, and that any identified risks to project implementation could be managed through a funding agreement. Further, despite the bike paths component being a discrete competitive element of the Jobs Fund, the assessment methodology applied did not make any provision for comparing the relative merits of competing applications. In the context of competitive grant programs, such an approach does not enable an agency to meet its obligation to provide Ministerial decision-makers with advice on the merits of proposed grants. The rationale for ultimately deciding against the use of a comparative ranking methodology based upon a scoring approach was not documented.

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<sup>89</sup> The assessment and decision-making processes adopted by DEEWR are being examined in more detail in a separate performance audit of the establishment, implementation and administration of the non-quarantined component of the Local Jobs stream currently underway.

Figure 2.3

Assessment Implementation Plan Flowchart



Source: The responsible department's internal procedures manual for the bike paths component.

## Assessing job creation and retention

**2.44** As one part of the Jobs and Training Compact, the Jobs Fund was intended to maximise job and training opportunities in local communities.<sup>90</sup> In this context, the Jobs Fund guidelines stated that funded projects would focus on directly generating jobs for people in communities with high unemployment, a rise in unemployment or vulnerability. A key element in achieving that outcome was the robust assessment of proposals against the first gateway criterion which required that:

Projects [be] in areas experiencing high unemployment, a significant rise in unemployment or vulnerability.

**2.45** The program guidelines emphasised that only projects that met each of the three gateway criteria would be considered for funding under any of the Jobs Fund funding streams. All three administering departments were involved in developing the Jobs Fund guidelines and program parameters, and DEEWR has advised ANAO that all administering departments agreed on all program parameters specified in the guidelines, including the gateway criteria. In addition, DEEWR shared that department's internal assessment guidelines with the other administering departments so as to facilitate a common understanding of the criteria. However, in establishing the approach each would take to assessing applications under the respective streams and components of the Jobs Fund, the administering departments did not agree or implement a common approach to assessing whether the gateway criteria had been met by a proposal. Against this background, in February 2012 DEEWR advised ANAO that, given each department was appropriated separately with separate delegations for their component of the Jobs Fund, they used established internal assessment processes to inform and advise their decision-makers.

**2.46** In relation to the unemployment gateway criterion, the guidelines for round one of the Jobs Fund (which included the bike paths component) did not stipulate that projects should be located in one of the Priority Employment Areas agreed by government in order to receive funding, or that preference would be given to projects located in a Priority Employment Area. However, the lead agency (DEEWR) adopted the approach of initially prioritising projects located in Priority Employment Areas for funding consideration under

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<sup>90</sup> <http://www.deewr.gov.au/Employment/Pages/JobsFund.aspx> accessed 24 March 2011.

round one.<sup>91</sup> Different approaches to assessing projects against this criterion were taken by the agencies responsible for other components of the Jobs Fund.

**2.47** In addition, as outlined in ANAO's audit of the IEP stream of the Jobs Fund<sup>92</sup>, no attempt was made (either by the then DITRD LG<sup>93</sup> in isolation or in consultation with DEEWR as the lead Jobs Fund agency) to define the meaning of key terms in the employment gateway criterion. Specifically:

- it was not made clear whether 'high unemployment' was an absolute term (and, if this was an absolute term, what unemployment rate would be considered high), or a relative term (and, if so, how a location would need to compare to the national or other nominated average to be considered 'high');
- a 'significant rise' in unemployment was also not clearly identified as being either an absolute term (and, if so, what increase would be considered significant and over what timeframe), or a relative term (and, if so, how the increase in unemployment in a location would need to compare to the corresponding increase in the national or other nominated unemployment rate to be considered 'significant'); and
- there was no documented approach to deciding how 'vulnerability' would be measured.

## **Assessment approach under bike paths component**

**2.48** As discussed, in assessing applications allocated to the bike paths component, the responsible department did not seek to compare the relative merits of competing proposals. Rather, the department sought only to identify whether each proposal could be considered to have met each of the threshold criteria. In respect to assessing applications against the unemployment gateway criterion, a phased approach was taken for the bike paths component. Specifically, a project was considered to have satisfied the criterion if:

- it was located in one of the 20 Priority Employment Areas;

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<sup>91</sup> Ultimately, 76 per cent of the projects approved by DEEWR under the first round of the Get Communities Working and Local Jobs streams of the Jobs Fund were located in Priority Employment Areas. See further at paragraph 3.15 and ANAO Audit Report No.7 2011–12, op. cit., p. 66 and pp. 128–129.

<sup>92</sup> See further at ANAO Audit Report No.7 2011–12, op. cit., p. 166.

<sup>93</sup> The then DITRD LG was responsible for administering both the bike paths component of the Local Jobs stream and the IEP stream of the Jobs Fund.

- it was not located in a Priority Employment Area but was located in a region that had been identified by DEEWR in its Regional Matrix (which had been prepared to identify the 20 Priority Employment Areas and provide comparative ratings of other areas around the country in terms of employment risk measures<sup>94</sup>) as being below average or poor in terms of employment vulnerability (as opposed to ratings of average or strong). These ratings were applied as a proxy indicator as to whether the project was in an area experiencing high unemployment or a significant rise in unemployment or vulnerability, as required under the gateway criterion; or
- if neither of the above applied, it was located in an area that could otherwise be considered to be vulnerable to high unemployment due to factors specific to that location.

**2.49** The approach taken by the responsible department meant that projects located in a Priority Employment Area were not favoured over those located in other areas. In total, projects located in Priority Employment Areas represented 47 per cent of the 255 applications ultimately assessed under the bike paths component, but accounted for less than 45 per cent of the approved projects.<sup>95</sup> In this respect, as illustrated by Table 2.2, the approval rate under the bike paths component for projects located in a Priority Employment Area was lower than the overall approval rate for applications considered under that component. As Table 2.2 also illustrates, projects assessed as not meeting the unemployment gateway criterion had a higher rate of approval under the bike paths component than did projects assessed as meeting this criterion.<sup>96</sup>

<sup>94</sup> The methodology used by DEEWR to identify the 20 Priority Employment Areas involved analysis of 25 labour market indicators. The approach taken reflected that department's perspective that no one factor (when taken in isolation) could determine whether a region was likely to deteriorate more rapidly in employment terms than another. Accordingly, each of the indicators in the matrix was assessed in the context of all others for a particular region, with particular weight being given to five characteristics and/or criteria which were seen as 'powerful determinants' of future labour market performance: DEEWR advised ANAO in June 2011 that: 'The Regional Matrix methodology which was used in identifying Priority Employment Areas cautioned that factors used in the determination of Priority Employment Areas were applied as 'best guide' because the future impact of economic downturn on specific regions and subregions was impossible to predict. To assist in this process a copy of the 'Regional Matrix' was provided to all departments in the early stages of Round 1 as one of the tools they could use to identify areas of disadvantage'. (See ANAO Audit Report No.7 2011–12, op. cit., pp. 60–62).

<sup>95</sup> By way of comparison, projects located in a Priority Employment Area comprised some 60 per cent of applications considered by DEEWR under Round 1 of the Jobs Fund, but represented over 76 per cent of approved projects.

<sup>96</sup> The approval of funding for projects that had been assessed as not meeting the first gateway criterion is discussed further at paragraphs 3.23 to 3.27 and 3.37 to 3.43.

**Table 2.2****Assessment results against the unemployment gateway criterion under the bike paths component of the Jobs Fund**

Assessment result	Applications assessed <sup>1</sup>		Applications approved	
	Number	\$ applied for	Number (approval rate %)	\$ approved
<b>Projects assessed as meeting gateway criterion 1:</b>				
Located in a Priority Employment Area	119	56 148 468	78 (66%)	17 619 075
Not located in a Priority Employment Area, but is in a region identified in the DEEWR Regional Matrix as below average or poor in terms of employment vulnerability.	32	8 625 106	21 (66%)	3 198 939
Not located in a Priority Employment Area or in a region identified in the DEEWR Regional Matrix as below average or poor in terms of employment vulnerability, but assessed as being located in an area otherwise considered to be vulnerable to high unemployment.	41	12 739 667	31 (76%)	7 465 726
<b>Sub-total</b>	<b>192</b>	<b>77 513 241</b>	<b>130 (68%)</b>	<b>28 283 740</b>
<b>Projects assessed as not meeting gateway criterion 1:</b>				
Unemployment gateway criterion not met.	63	27 100 706	45 (71%)	10 553 717
<b>Total</b>	<b>255</b>	<b>104 613 947</b>	<b>175 (69%)</b>	<b>38 837 457<sup>2</sup></b>
Notes:				
<ol style="list-style-type: none"> <li>1. The total number of applications assessed of 255 excludes the eleven projects that were initially allocated to the bike paths component for assessment but which were subsequently either returned to DEEWR for assessment under another element of the Jobs Fund or withdrawn by the applicant during the assessment process (see paragraph 2.2).</li> <li>2. The value of approved applications exceeds the available program funding (\$37.9 million). This was because, initially, 174 projects were approved in October 2009 for a total of \$37.87 million. However, funding offers for three of these projects were withdrawn prior to the funding agreement being signed (once it emerged that the projects had either been completed, or were substantially complete), with a further project then being approved in December 2009 for partial funding of \$967 000 using the funds that had become available.</li> </ol>				

Source: ANAO analysis of Regional Australia data.

## Value for money considerations

**2.50** As is reflected in the CGGs, it is expected that value for money will be a core consideration in determining funding recipients under a grant program.<sup>97</sup> For competitive application-based grant programs, value for money analysis is typically undertaken by comparing the relative merits of all eligible, compliant proposals. While the particular measures that are applicable will vary depending upon the type of project involved, a value for money assessment of a proposal based on consideration of the outcomes proposed for the amount of funding sought is an important consideration in determining grant recipients.

**2.51** In respect to the assessment of value for money under the Jobs Fund, in May 2011 DEEWR commented to ANAO that:

The current *ANAO Better Practice Guide—Implementing Better Practice Grants Administration* states: ‘value for money is expected to underpin the selection criteria for established grant programs’ (section 5.4.1). Accordingly, while value for money was not a standalone criterion for the Jobs Fund, it did underpin the entire assessment process.

In addition, the Round One Guidelines specifically state in section 6.5 that applications need to demonstrate value for money and that consideration of local community factors and project variables will be taken into consideration in making an assessment of cost effectiveness.

**2.52** The section 6.5 of the guidelines referred to by DEEWR in its comments to ANAO was titled ‘Due diligence and risk assessment’. This section was separate from the gateway criteria and target areas that all proposals were required to satisfy. The section similarly applied to all streams and stated that projects would be subject to due diligence and risk assessment by the departments ‘as appropriate’. The guidelines further advised that important aspects that ‘may be considered’ in relation to the overall viability of the project included:

### Cost effectiveness

Applications will need to demonstrate that the project represents value for money for the Australian Government. In assessing value for money,

<sup>97</sup> ‘Achieving value with public money’ is one of the seven key principles for grants administration established by the Australian Government, with the CGGs stating: ‘Achieving value with public money should be a prime consideration in all aspects of grants administration’ (Commonwealth Grant Guidelines, op. cit., p. 30).

Departments will look at the outcomes of the project in light of the amount of funding being sought. For example, Departments could consider:

- The number of long term and short term jobs being created,
- Number of persons being trained, or
- The number of users of a facility being built.

Departments will take into consideration local community factors and project variables in making this assessment.<sup>98</sup>

**2.53** However, as outlined in ANAO's audit of the IEP stream of the Jobs Fund<sup>99</sup>, the inclusion of this aspect of the assessment as an element of the due diligence and risk assessment section of the guidelines did not assist in highlighting its importance to both potential funding recipients and the administering agencies as an overarching consideration in the selection of successful applications, separate and additional to the assessment of proposals against the threshold target areas and gateway criteria.

*Value for money not assessed*

**2.54** In the context of a targeted economic stimulus measure such as the Jobs Fund, it reasonable that the employment outcomes expected to be achieved will be an important element of the assessment of value for money provided by competing proposals. It might be expected that such analysis would involve seeking to maximise, for the funding awarded, job creation and retention outcomes in the areas of identified greatest need (particularly the Priority Employment Areas agreed by government), as well as consideration of the type of bike path facility proposed for construction. However, no value for money analysis was undertaken by the responsible department in respect to applications assessed under the bike paths component of the Jobs Fund.

*Value for money of proposed employment outcomes not assessed*

**2.55** The assessment approach adopted, and subsequent advice provided to the responsible Minister, was limited to accepting at face value the employment claims made in each application, with no attempt being made to

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<sup>98</sup> The suggested wording for this provision was supplied to DEEWR by the then DITRDLG on 30 March 2009 for inclusion in the common Jobs Fund guidelines.

<sup>99</sup> ANAO Audit Report No.7 2011–12, op. cit., p. 70.



test the veracity of those claims.<sup>100</sup> Nor did the department seek to assess whether the forecast employment outcomes represented value for money for the funding sought, or to otherwise advise the Minister in this regard.

**2.56** In this respect, the jobs claims made in applications allocated to the bike paths component for assessment varied widely and not necessarily in proportion to the estimated cost of the project. Of the 255 projects ultimately assessed, only two did not propose to result in the creation or retention of any short or long-term jobs, work experience positions or traineeships (referred to collectively as ‘jobs’ in the following discussion).<sup>101</sup> However, a further 69 (27 per cent of applications) proposed that the relevant project would only create five or fewer jobs and retain five or fewer jobs. Of those 69 projects, 61 (88 per cent) were approved for funding.

**2.57** At the other end of the spectrum, there were 15 applications that claimed the submitted project would create 30 or more jobs, of which three (20 per cent) were approved. Two of those 15 projects were also expected to result in 30 or more jobs being retained in the short or long-term, but neither of those projects was approved. The applications submitted in respect to a further seven projects stated that they would each result in at least 30 jobs being retained in the short or long-term, with associated job creation claims ranging from no jobs created to 20 jobs created. Two of these seven projects were approved (both of which had proposed no jobs as being created as a result of the relevant project).

**2.58** As noted, the particular measures that will be most appropriate to assessing the comparative value for money of competing applications to a grant program will vary depending upon the type of project involved, and the

<sup>100</sup> For example, in circumstances where the applicant (in most cases a local government authority) intended to deliver the works itself (rather than contracting out the construction work), the responsible department did not seek to identify whether:

- projects that the applicant claimed would create new jobs were to involve the employment of additional staff rather than providing existing staff with new work to undertake; or
- projects that the applicant claimed would enable it to retain jobs were to involve the retention of existing staff that would otherwise have been made redundant.

<sup>101</sup> Specifically: Strathfield Municipal Council in Sydney applied for \$148 580 towards the estimated \$297 160 cost of upgrading selected on-road parts of the Bay to Bay Cycleway, but its application did not undertake to create or retain any short or long-term jobs, work experience positions or traineeships; and Kingborough Council in Tasmania applied for \$72 727 towards the estimated \$145 454 cost of constructing a 800 metre long, two metre wide concrete cycle path linking Firthside with the Kingston CBD, including a pre-fabricated concrete bridge across Whitewater Creek, but its application also did not undertake to create or retain any short or long-term jobs, work experience positions or traineeships.

program objectives. In this respect, as noted at paragraph 2.52, the Jobs Fund program guidelines stated that departments would look at the outcomes of each project in light of the amount of funding being sought and that in doing so departments could consider, for example, the number of long-term and short-term jobs being created.

**2.59** The average cost of the total short or long-term jobs, work experience positions and/or traineeships (jobs) proposed to be created or retained through the 253 projects that expected to result in at least one employment outcome was \$28 323 per job. However, the average cost varied widely for individual bike path projects, ranging from \$1 426 to \$254 545 per job. The average cost of the jobs proposed to be created or retained through the 175 approved projects was \$19 967 per job, with the average cost to the Australian Government under individual projects ranging from \$1 426 to \$177 607 per job. As noted, in being asked to consider which bike path projects he wished to approve, the responsible Minister was not provided with any advice on this aspect of each competing project. For example, in the project summary illustrated at Appendix 2 to this audit report, the Minister was advised that the project was seeking \$610 100 in bike paths component funding and that the proponent had proposed that it would create one and retain three short-term jobs; create one and retain three long-term jobs; and create one traineeship. However:

- the department's assessment procedures did not seek to confirm that the jobs proposed to be created and retained for up to six months were distinct from the same number of jobs that were proposed to be created and retained for longer than six months; and
- the Minister was not advised that, assuming all nine proposed employment outcomes were discrete positions, this resulted in an average cost to the Australian Government of \$67 789 per job. Nor was the Minister advised as to whether this outcome may or may not be considered to represent value for money, including by comparing this anticipated employment outcome to other applications.

**2.60** The shortcomings in this aspect of the assessment process contributed to a number of applications with relatively limited claimed employment benefits being nevertheless approved for funding. For example:

- Alexandrina Council in South Australia was awarded funding for two projects—\$195 327 towards the \$390 655 estimated cost of constructing a 3.3km shared off-road bicycle and pedestrian path in Goolwa; and \$140 415 towards the \$280 830 estimated cost of constructing the first

stage of a shared path extending from the northern to the southern township limits. Each application had stated that the respective project would result in the creation and/or retention of two traineeship positions (representing a cost to the Australian Government of \$97 663 and \$70 207 per traineeship respectively), but neither project was expected to otherwise create or retain any short or long-term jobs. Both projects were proposed to be undertaken concurrently, over a seven month timeframe. In addition to not examining whether the claimed employment benefits represented value for money, the departmental assessment did not seek to establish whether each project would create and/or retain two traineeship positions within the Council's workforce (for a total of four positions), or whether in total only two traineeships were expected to be created/retained across the two projects<sup>102</sup>; and

- Moorabool Shire Council was awarded \$100 000 towards the estimated \$200 000 cost of constructing 2.2 kilometres of a two metre-wide, granite sand path in Greendale, Victoria. The application had stated that the project would create two short-term jobs (at a cost to the Australian Government of \$50 000 per job, both of which were expected to exist for less than six months).

**2.61** By way of comparison, of the 255 bike path projects assessed, 110 were located in a Priority Employment Area, had been assessed by the responsible department as meeting all relevant criteria, and the associated project risks were considered acceptable and able to be managed through a funding agreement. Collectively, these projects had sought grants totalling \$46 million (which would have more than exhausted the available program funding of \$37.9 million). In total, the relevant applications had claimed that these projects would create 1 079 jobs and result in the retention of a further 770 jobs in Priority Employment Areas.

**2.62** Of those 110 applications, 78 (71 per cent) were approved for a total of \$17.6 million in program funding, at an average of \$225 886 per project (individual project funding ranged from \$10 500 to \$2 million). The applications in respect to those 78 projects had claimed that, in total, they would create 572 jobs and retain 342 jobs in Priority Employment Areas, at an average of just under 12 jobs created/retained per project (individual expected

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<sup>102</sup> Ultimately, the Council sought and received approval to reduce the scope of both projects due to project costs having been underestimated in the original applications.

job outcomes ranged from zero to 36 jobs created and zero to 50 jobs retained). This represented an average cost to the Australian Government of \$19 277 per job, but with the cost per job for individual approved projects ranging from \$2 278 to \$133 333.

**2.63** The remaining 32 projects located in Priority Employment Areas that had been assessed as meeting all relevant criteria (and with acceptable risks that could be managed through a funding agreement) were not approved. Those applications had, in general, sought larger grants than those that were approved (ranging from \$80 000 to \$2 million per grant, an average request of \$870 539 per project). Those applications had also proposed to create and/or retain higher numbers of jobs through the relevant projects. Collectively, these 32 projects proposed to create a total of 507 jobs and result in the retention of a further 428 jobs, at an average of 29 jobs created/retained per project (individual expected job outcomes ranged from zero to 94 jobs created and zero to 63 jobs retained). This represented an average of \$29 794 per job that had been proposed to be created/retained had those projects been approved, but the proposed cost per job for individual projects ranged from \$4 091 to \$137 769.

Value for money of proposed bike path facility not assessed

**2.64** The responsible department similarly undertook no value for money assessment in relation to the nature of the bike path facilities proposed for construction with the funding sought. In this respect, there is no evidence of the department assessing the dimensions and functionality of proposed projects and/or the usage the facility was expected to attract in order to assess whether:

- the likely usage of the proposed facility was consistent with the objectives of the program. In this respect, as discussed at paragraph 2.27, the department did not seek to form a view as to whether (or how well) a project would provide alternative transport options;

- the proposed cost represented value for money when compared with industry standards for the construction of a relevant facility<sup>103</sup>; and/or
- the proposed dimensions accorded with accepted standards for such facilities.<sup>104</sup>

**2.65** In this latter respect, for example, in March 2011 Austroads<sup>105</sup> released the *Cycling Aspects of Austroads Guides*. This publication contains key information that relates to the planning, design and traffic management of cycling facilities, including a summary of design guidance and criteria relating to on-road and off-road bicycle facilities. The *Cycling Aspects of Austroads Guides* cross-references the Austroads Guides for more detailed information, including the following guides that were available at the time the bike paths component was being designed and implemented:

- *Guide to Road Design*,
- *Guide to Traffic Management*; and
- *Guide to Road Safety*.

**2.66** Of particular relevance to the funding of bike paths infrastructure, Part 6A of the Austroads Guide to Road Design related to *Pedestrian and Cyclist Paths*. This part describes the types of paths that can be constructed and their appropriate location within the road reservation; provides guidance on alignment, width and other geometric requirements; and information on the

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<sup>103</sup> By way of comparison, in respect to another economic stimulus program administered by the same responsible department, starting with the 2010 second funding round, the department enhanced its assessment practices to explicitly examine (for a risk-based sample of projects) whether the budgets submitted by councils represented a fair and reasonable estimate of likely costs, thereby providing greater assurance that the projects nominated for funding represented value for money. In that case, the advice to the department from the contracted adviser was that, to assess value for money for footpath and bike path projects, it was important to have the following information: the length of the path (generally stated as linear metres); the width of the path; and materials to be used (for example, gravel, asphalt or concrete). As noted at footnote 81, the Jobs Fund application form did not seek bike paths-specific information and it was left to the discretion of applicants as to the type, and extent, of information provided in relation to the parameters of the project for which funding was being sought. In the majority of cases, applicants did provide some information in relation to the dimensions of proposed bike path projects, such as the expected length and width of the path to be constructed, but this information was not assessed by the department in order to inform the responsible Minister's decision-making.

<sup>104</sup> See paragraphs 4.8 to 4.11 for analysis of delays in funding agreements being developed and signed following project approval, which was in part a consequence of insufficient information on the project having been obtained from proponents through the application and assessment process.

<sup>105</sup> As noted at footnote 76, the then DITRD LG (as it was at the time of the bike paths assessment process, prior to the relevant division transferring to Regional Australia) and now Infrastructure is a member of Austroads (the association of Australian and New Zealand road transport and traffic authorities).

design of treatments such as path intersections and terminals. However, in January 2011 Regional Australia advised ANAO that:

The Austroads *Guide to Road Design part 6A: Pedestrian and Cyclist Paths* provides guidance for road designers and other practitioners on the design of safe paths for pedestrians and cyclists. Other bicycle roads information is spread across a range of new Austroads Guides (the previous consolidated bicycle guide, *Austroads Part 14 Bicycles* is no longer applicable). The Austroads guidance is not mandatory for bicycle paths and the Department takes the view that as Local Councils have ultimate responsibility for cycling infrastructure, compliance with bicycle path construction standards is a Council decision.

**2.67** The approach of not requiring that works funded, in part, with Australian Government funding be constructed to relevant standards is inconsistent with that taken in another program for the construction, by local government, of transport infrastructure. Specifically, whilst the governance arrangements for the original Roads to Recovery Program (which operated from 2001 to 2005) were silent on the required standard of works to be undertaken using program funding, the governance arrangements for the subsequent phase of that program were enhanced to state that:

Projects undertaken using Auslink Roads to Recovery payments should comply with standards and guidelines published from time to time by Austroads, Standards Australia, the government of the State or Territory in which the project is undertaken or the Australian Road Research Board which are applicable to the project.<sup>106</sup>

**2.68** The perspective adopted in respect to the bike paths component is also not consistent with the action item from the current National Cycling Strategy requiring governments to invest in developing cycling networks that are consistent with national standards (see paragraph 2.32). The previous National Cycling Strategy that was in place at the time the bike paths component of the Jobs Fund was designed and implemented had similarly included a number of action items for governments that related to the development and application of national standards. However, as a result of the approach taken in the administration of the bike paths component, a number of funded projects involved designs that were not consistent with the relevant Austroads

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<sup>106</sup> See further in ANAO Audit Report No. 31 2005–06, *Roads to Recovery*, Canberra, 1 March 2006, pp. 78–80.

guidance for bicycle infrastructure.<sup>107</sup> This was particularly the case with respect to the approval of funding for bike path or shared-use path projects that, according to Austroads guidance, were too narrow for safe use by cyclists.

## Conclusion

**2.69** The approach taken to assessing applications allocated to the bike paths component did not seek to focus funding consideration on those projects that would maximise job creation and retention outcomes for the funding awarded in the areas of identified greatest need (particularly the Priority Employment Areas agreed by government). In addition, the responsible department did not undertake any value for money analysis in respect to the employment claims made by project proponents in their applications. As a result, a number of applications with relatively limited claimed employment benefits were approved. At the same time, other projects with significant claimed employment benefits that were located in Priority Employment Areas and had been assessed as meeting all other identified criteria were not approved. This can be seen as a somewhat perverse outcome in the context of the reasons for establishing the Jobs Fund, and the findings and recommendations of the *Keep Australia Working* report that was released in the same month (July 2009) the responsible department commenced the assessment of applications allocated to the bike paths component.<sup>108</sup>

**2.70** The department also did not assess the dimensions and functionality of proposed bike path projects and/or the usage the facility was expected to attract in order to assess whether:

- the proposed cost represented value for money when compared with industry standards for the construction of a relevant facility; and/or
- the proposed dimensions accorded with accepted standards for such facilities.

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<sup>107</sup> The standards for the construction of bike paths and dual use/shared use paths require that the path be considerably wider than is required for a footpath, with the construction of footpaths being ineligible for funding under the bike paths component of the Jobs Fund. As outlined at paragraph 2.2, three applications originally allocated to the bike paths component for assessment were returned to DEEWR for assessment under other components because the proposed works involved the construction of a footpath, but not a dual use/shared use path.

<sup>108</sup> As outlined at paragraph 3.15, that report had recommended that Jobs Fund funding be targeted to the Priority Employment Areas.

## Recommendation No.2

**2.71** ANAO recommends that, in implementing funding programs for the construction of infrastructure, the Department of Regional Australia, Local Government, Arts and Sport:

- (a) undertakes analysis of the value for money of proposals received, including analysing the expected outcomes to be achieved for the funding sought and assessing whether the proposed cost is reasonable; and
- (b) requires that funded projects be constructed to appropriate technical standards, in order to address the risk of the Australian Government funding projects that are not fit for their intended purpose.

**2.72 Regional Australia response:**

- (a) Agreed. The Department of Regional Australia, Local Government, Arts and Sport (DRALGAS) notes that it already undertakes this approach in respect to its current programs, including the Community Infrastructure Grants Program (CIG) and the Regional Development Australia Fund (RDAF).
- (b) Agreed. The Department currently seeks evidence that building and construction standards are in accordance with the relevant state or local government authorities.

## Risk assessment

**2.73** The Jobs Fund guidelines approved and published in April 2009 outlined that:

All proposals will be assessed by the Departments against the four target areas, the three gateway criteria and the due diligence and risk assessment. (sic)<sup>109</sup>

**2.74** In this latter respect, as discussed at paragraph 2.52, the guidelines included a section titled 'Due diligence and risk assessment' which applied to all streams and stated that projects would be subject to due diligence and risk assessment by the departments 'as appropriate'.

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<sup>109</sup> Jobs Fund Guidelines, 18 April 2009, p. 13.



**2.75** Risk assessment played a relatively limited role in respect to the assessment of applications allocated to the heritage component of the Local Jobs stream. The assessment methodology applied by DEEWR in respect to the general component of the Local Jobs stream and the Get Communities Working stream included provision for explicit consideration of due diligence and risk assessment in terms of an application's proposed budget, project plan/timeframes, business plan and project linkages. However, this did not form part of the scored assessment of each project.

**2.76** By way of comparison, risk assessment played a significant role in the responsible department's assessment of applications allocated to the bike paths component. The chapter of the responsible department's internal procedures manual that was dedicated to 'Risk Analysis' outlined that:

Risk analysis is undertaken to identify risks, rate risks, propose risk treatments and determine whether the Department believes these risks are acceptable or unacceptable.

Risk analysis enables the Department to advise the Australian Government of any measures considered necessary to manage risks to the Commonwealth.

The purpose of the risk analysis is to ensure the Government is appropriately informed about whether the Department believes the applicant:

- is capable of administering funding and delivering the project in accordance with the stated requirements and obligations; and
- has a strategy for contributing to, or managing, the ongoing operation of the project after delivery.

**2.77** The department proposed to support the awarding of funding for a project only in circumstances where the post-mitigation risk was considered to be acceptable for all identified risks, or no risks had been identified. In this context, neither the published program guidelines, nor the department's documented approach to risk assessment, intended that an application's assessed level of project implementation risk would be used as a primary determinant of whether the application would be approved. Rather, as illustrated by Figure 2.3, the responsible department intended that the risk assessment process would be used to inform its assessments as to:

- whether projects were viable and ready to start (that is, met the second gateway criterion);

- whether projects would be self-sustaining and not require Commonwealth funding after 30 June 2010 (that is, met the third gateway criterion as it applied to the bike paths component); and
- how well the project proponent could be expected to manage any grant funds it may be awarded.

**2.78** However, as outlined further in Chapter 3 of this report, the risk assessments of individual projects prepared by the department ultimately played an unintended but significant role in the approach taken to selecting successful applications. Specifically:

- 146 (84 per cent) of the 174 projects approved in October 2009 had been selected on the basis that the responsible department had identified no project risks, or that the risks identified were rated as 'very low' (post-mitigation). A further three projects rated as 'very low' risk post-mitigation were not approved;
- to fully allocate the available \$37.9 million in bike paths component funds, a further 28 projects (with total funding of \$14.3 million) were selected from those allocated a post-mitigation risk rating of 'low' so as to 'provide an appropriate balance of investment across jurisdictions'; and
- no applications that had been allocated a post-mitigation risk rating of 'moderate' or higher were selected for funding.

**2.79** In this context, any inconsistencies and/or a lack of rigour in the conduct of risk assessments would have a significant effect upon which applications were approved, and those that were not awarded a grant.

## **Extent to which risk assessments were conducted**

**2.80** The responsible department assessed 255 projects under the bike paths component of the Jobs Fund. Risk assessments were undertaken for 253 of these applications. A risk assessment was not undertaken for two projects (neither of which was approved for funding). In one instance, this was because the project had already been completed by the applicant, Wollondilly Shire Council, using funds made available to it under the Council Allocation component of the RLCIP .

**2.81** The other instance where a risk assessment was not completed related to the application by Cardinia Shire Council in Victoria for \$2.3 million towards the estimated \$4.6 million cost of constructing 31 kilometres of bike

lane along 15.5 kilometres of the Princes Highway between Beaconsfield and Pakenham. The project was to provide a link in a growth corridor connecting major infrastructure projects. In the project summary for this application provided to its Minister, the responsible department recorded that a risk analysis was not undertaken because it had assessed that the second and third gateway criteria had not been met.<sup>110</sup> However, illustrating an inconsistent approach, there were a further five applications that had similarly been assessed as not meeting the second and third gateway criteria, but which were the subject of a risk assessment.<sup>111</sup> None of those five applications were approved for funding.

## Methodology

**2.82** The results of the risk assessment for each project were tabulated by the responsible department in four categories namely: project viability and readiness; the proponent's ability to manage grant funds; corporate and personnel matters relating to the proponent; and the proponent's ability to sustain the project. The documented procedures required that, for any identified risks under each category:

- existing controls in the standard funding agreement that would mitigate the likelihood or consequences of the risk be identified;
- a risk rating of 'very low', 'low', 'moderate', 'high' or 'severe' be allocated to each category in respect to which one or more risks had been identified, after having regard to the existing controls (referred to as the pre-treatment risk level);
- any further treatments be identified, for example through requirements to be specified in the funding agreement as a milestone or condition of receiving a payment of grant funds should the relevant project be approved;
- a post-treatment (or post-mitigation) risk rating (using the same rating scale) be allocated, having regard to the expected impact of the

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<sup>110</sup> In addition to not meeting the second and third gateway criteria, the project summary provided by the responsible department to its Minister stated that the application did not meet the requirement of the Jobs Fund guidelines that the amount of funding sought be less than \$2 million.

<sup>111</sup> This included another project which (similar to the project discussed in footnote 110 as not having had a risk assessment) had also been assessed as not meeting the requirement that the funding requested be less than \$2 million, in addition to being assessed as not meeting the second and third gateway criteria.

proposed treatments on the likelihood and/or consequences of the identified risk occurring; and

- a judgement be recorded as to whether the post-mitigation risk rating was acceptable or not.

### *Independent Viability Assessments*

**2.83** The Jobs Fund guidelines outlined that, where there were considered to be risks with the viability of a project requiring further consideration, an Independent Viability Assessment (IVA) would be undertaken by a qualified external consultant engaged by the relevant department, with the IVA findings to be considered in the project assessment. Consistent with this approach, the documented departmental procedures for the bike paths component stated that:

An IVA may be undertaken if the Team Leader and Project Officer have indications that a project and/or applicant is identified as 'high risk' in the risk analysis process.

**2.84** For each bike path component application being assessed, departmental procedures further required that a decision as to whether an IVA was required, and the reasons for that decision, be recorded. Of the 255 applications assessed:

- there were six instances (two per cent) where a decision was recorded to conduct an IVA. However, in none of those instances was there any record of the IVA having been conducted. The responsible department had allocated these applications an overall post-mitigation risk rating of either 'low' (two applications) or 'very low' (four applications). Notwithstanding the decision recorded at the time of assessment to commission an IVA, in January 2012 Regional Australia advised ANAO that IVAs were not conducted because 'internal risk assessments were considered sufficient'; and
- for the remaining 249 applications, the requirement to document the reason for not undertaking an IVA was adhered to on only 18 occasions (representing seven per cent of applications for which it was determined that an IVA was not required). The 249 applications where an IVA was not proposed to be conducted included five applications where the responsible department had concluded that it was unable to

assess risks in relation to the project<sup>112</sup>; one project that had been allocated a pre-treatment risk rating of 'severe'; and six projects where a pre-treatment risk rating of 'high' had been allocated. Of that last group, one project was approved after the department determined that, based on the inclusion of proposed milestones in the funding agreement, the post-treatment risk rating for the project was 'low' (see paragraph 2.78).

## Risk assessment results

**2.85** No risks were identified in relation to 13 (five per cent) of the 253 projects that were subject to a risk assessment. Whilst one or more risks were identified in relation to the remaining 240 applications (95 per cent), these predominantly related to the category of 'project viability and readiness' (see further at paragraphs 2.86 to 2.99). Very few projects were identified as involving risks relating to:

- the management of grant funds—13 applications (five per cent of all applications) were identified as representing either a 'moderate' (seven applications) or 'low' (six applications) risk<sup>113</sup> under this category, prior to the application of any risk mitigation strategies. On the basis of the risk mitigation strategies the responsible department proposed to employ through the funding agreement negotiation and management process<sup>114</sup> (should the projects be approved), the assessed post-treatment risk level for each of these 13 projects was reduced to 'low' (eight applications—two of which were approved) or 'very low' (five applications—four of which were approved);
- project sustainability—risks in this category were identified in respect to five applications (two per cent of all applications). In three instances,

<sup>112</sup> This included three of the five projects referred to at paragraph 2.81 which the department had assessed as not meeting gateway criteria 2 and 3, but for which a risk assessment was nevertheless undertaken.

<sup>113</sup> The risks identified related to concerns about the applicant's past performance in managing grant funds, or an assessed lack of experience in managing grant funds.

<sup>114</sup> The risk mitigation measures proposed involved one or more of the following standardised strategies: outlining to the proponent its reporting responsibilities under the funding agreement and the implications of non-delivery; informing the proponent that funds would not be released until milestone requirements were met and a report was accepted by the department; structuring payments on a needs basis in accordance with negotiated milestones, where there was evidence of expenditure or a commitment to spend project funds; ensuring that the proponent established a separate bank account for bike path component funds; and/or maintaining regular contact with the proponent to ensure reporting requirements were met.

the identified risk related to the application having indicated that the project was unlikely to be completed by 30 June 2010.<sup>115</sup> In the remaining two instances, the identified concern related to ongoing maintenance of the works submitted for funding<sup>116</sup>; and

- corporate and personnel risks—risk under this category was identified in respect to one application (rated as ‘moderate’ prior to any mitigation strategies, and ‘low’ on the basis of the identified strategies to be employed through the negotiation and management of the funding agreement). This application was not approved.

## **Consistency and rigor of project viability and readiness risk assessments**

**2.86** As noted at paragraph 1.7, the second gateway criterion stated that ‘projects must be viable and ready to start’. This criterion was of particular importance for the bike paths component, given the assessment process was being undertaken by the responsible department during the period July to September 2009 and projects would be expected to be completed by 30 June 2010 (as reflected in the third gateway criterion). In this respect, as outlined at paragraph 2.77 and Figure 2.3, the responsible department intended to use its assessment of risks to project viability and readiness as a key input to assessing whether applications met the second and third gateway criteria.

**2.87** As noted, the majority of the risks identified through the department’s risk assessment process related to project viability and readiness, with risk under that category having been identified in respect to 235 projects (93 per cent of applications subject to a risk assessment). Those risks were identified in 11 areas, but predominantly related to four areas<sup>117</sup>, being:

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<sup>115</sup> Both the pre-mitigation and post-mitigation risk rating assigned to each of these projects was ‘high’ on the basis that the responsible department did not identify any way of the risk being ameliorated through the negotiation and management of the funding agreement. None were approved for funding.

<sup>116</sup> The responsible department had rated the pre-mitigation risk for each of these two applications as ‘moderate’. In both cases, this was reduced to a post-mitigation risk rating of ‘low’ on the basis that the proponent would be asked to confirm its commitment to maintaining the constructed bike path in the future prior to receiving any bike path component funds. Neither was approved for funding.

<sup>117</sup> In total, 89 per cent of the project viability and readiness risks identified related to these four areas.

- the basis for the project's cost estimate<sup>118</sup>–211 applications (83 per cent of projects for which a risk assessment was completed);
- project plans/designs not being finalised–182 applications (72 per cent), including 171 for which there were also concerns about the cost estimate;
- the tender process for the works having yet to be completed/contractor not yet appointed–89 applications (35 per cent). Of those 89 applications, risks relating to the cost estimate had also been identified for 85; and the project plans/designs for 73; and
- necessary approvals for the project having yet to be granted–85 applications (34 per cent). Of those 85 applications, risks relating to the cost estimate had also been identified for 70; the project plans/designs for 67; and the tender process/contractor appointment process for 29).

### *Project budgets and cost estimates*

2.88 There were significant shortcomings evident in the approach taken by the responsible department to examining, from a risk identification and management perspective, the project budgets submitted by proponents with their application. In particular, for 98 of the applications assessed as having one or more project viability and readiness risks, the responsible department had downgraded the assessment of the application because the applicant had based its project budget on an estimate of costs. However, as has been previously noted by ANAO<sup>119</sup>, it is important to appropriately distinguish between budgets, estimates and costs in the context of capital works projects. Specifically:

- a 'budget' refers to a funding allocation to deliver the proposed works;
- the 'cost' of those works will not be known until they have been delivered;

<sup>118</sup> This was due to either: the stated figure being an estimate only (98 applications) (see further at paragraphs 2.88 to 2.96); the project budget not having been finalised, confirmed or provided (111 applications); or due to detailed cost estimates not having been provided (seven projects, of which four had also been identified as not having a finalised budget).

<sup>119</sup> ANAO Audit Report No. 20 2008–09, *Approval of Funding for Public Works*, Canberra, 5 February 2009, p. 70.

- although the final cost is not known until after completion of works, at any point an 'estimate' can be made of the final cost; and
- any estimate has a level of uncertainty attached to it, and that uncertainty should reduce as the project advances through planning, into delivery, and towards completion;

**2.89** Against this background, it is desirable that project budgets and cost estimates be established with sufficient rigour such that, subject to sound project management and cost planning, the overall estimate is able to be maintained during the various stages of project design development. In particular, while detailed estimate items may increase as a consequence of improved definition, the allowance for risk (contingency) should also be able to be appropriately reduced, allowing the overall project estimate to be maintained.<sup>120</sup> Accordingly, whilst it is relevant for risk assessments to consider the rigour with which budgets and estimates have been developed, it misunderstands the principles of capital works budgeting and estimating to assess a project as representing a higher project delivery risk simply because the budget is based on an estimate, when any capital works budget should be based on a rigorous estimate.<sup>121</sup>

**2.90** Further, even where the applicant had provided information to the responsible department outlining the basis for its estimate, the department often continued to identify that a budget based on an estimate of the cost represented a risk to project delivery, without the department having considered whether the estimate was rigorous.

**2.91** For example, the Victorian Department of Transport had applied for \$1.35 million towards the estimated \$3 million cost of a project to provide secure bicycle parking at 30 railway stations across metropolitan and regional Victoria so as to increase the number of people riding bicycles, especially for transportation to employment, education and training. During the assessment, the applicant advised the responsible department that the proposed project budget was based on the cost of a similar project undertaken the previous year

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<sup>120</sup> Evans & Peck, *A Review of the reliability of Cost Estimation of QDMR Projects funded under AusLink*, 27 June 2007, p. 12.

<sup>121</sup> For example, ANAO Audit Report No. 43 2008–09, *Construction of the Christmas Island Immigration Detention Centre*, Canberra, 23 June 2009 drew attention to the risk that arises where a project cost estimate is tailored to match the budget such that it does not reflect a genuine estimate of the cost to complete the works (see pp. 96–97).



(2008) to deliver 23 bicycle cages at metropolitan and regional rail stations. The applicant also provided a spreadsheet outlining the calculation of the per-cage cost estimate. Notwithstanding that the responsible department's request for this information had indicated that relying upon costs for a previous project was a valid basis for preparing the estimate<sup>122</sup>, the department assessed that the budget being based on an estimate of project costs was one of two factors<sup>123</sup> that led to a heightened risk that project delivery would be delayed or would not be successful. Based on proposals that the two identified risks would be managed through milestones included in the funding agreement, the pre-treatment risk rating of 'moderate' was reduced to 'low'. This application was not one of those with a post-treatment risk rating of 'low' that was approved for funding based on its location (see paragraph 2.78).

**2.92** Another example of the responsible department identifying a risk associated with the budget proposed in an application, notwithstanding that the basis for the estimate had been provided, involved the Banyule City Council's application for \$402 450 towards the \$854 900 estimated cost of constructing a series of bike paths according to strategic plans for the area. On this occasion, three project viability and readiness risks were identified, two of which were the same as had been identified for the Victorian Department of Transport's application (that is, that the tender process had not been finalised, and the project budget was based on estimates).<sup>124</sup> The responsible department identified the basis for the project budget as a risk notwithstanding that Council had provided it with detailed cost estimates to support the majority of the proposed works<sup>125</sup>, with the estimates comprising a schedule of works, the quantities involved and applicable rates.

**2.93** Whereas the Victorian Department of Transport's application was allocated a pre-treatment risk rating of 'moderate' based on exhibiting two of the three risks identified in respect to Banyule City Council's application, the

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<sup>122</sup> The request to the applicant from the responsible department had been: 'Can you explain how the costs provided in the proposed budget were obtained? E.g. through quotes or from a previous bike path project?'

<sup>123</sup> The other factor stated was that a 'Request for tender process will need to be conducted'.

<sup>124</sup> The third risk identified in respect to the Banyule City Council's application was that 'design plans have not all been finalised', whereas the Victorian Department of Transport had provided the responsible department with copies of its design plans for the bike cages.

<sup>125</sup> In seeking this information from the applicant, the responsible department had noted that the application had stated that the budget was 'based on a combination of contractor quotations for some elements and estimates provided by appropriately qualified Council staff'.

latter was allocated a pre-treatment risk rating of 'low'. The same risk treatments were proposed to address the two common risks but, because Banyule City Council had been allocated a lower pre-treatment risk rating, it was also allocated a lower post-mitigation rating (of 'very low'). As a result of the department's inconsistency in allocating risk ratings, the Banyule City Council's application was included in the list of projects selected for funding on the grounds that they had been allocated a 'very low' post-mitigation risk rating.<sup>126</sup>

**2.94** The inconsistent approach taken to allocating risk ratings was also evident in respect to the 17 applications for which the only risk identified related to the department's concerns about the basis for the project's cost estimate or proposed budget. In each instance, the department proposed that, should the project be approved, the risk would be managed through the funding agreement by requiring that the proponent confirm the project budget. However:

- for 12 of these applications, a pre-treatment risk rating of 'low' was allocated. On the basis that the risk would be managed through the funding agreement, the post-mitigation risk rating for 11 applications was reduced to 'very low'. However, the post-mitigation risk rating was maintained at 'low' for one application despite the same risk treatment measure being proposed for the same identified risk; and

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<sup>126</sup> Both of these applications had been assessed by the responsible department as meeting all eight criteria derived by the department from the Jobs Fund Guidelines, including the three gateway criteria. In addition, the Victorian Department of Transport's application had indicated it would provide greater employment outcomes in higher priority areas than had the Banyule City Council application. Specifically:

- Banyule City Council's application had indicated that its project would create two long term jobs, and 12 traineeships, but not in a Priority Employment Area (the area was rated average on the DEEWR matrix, rather than poor or below average, with the department basing its assessment that the project met the unemployment gateway criterion on the basis of claims the applicant had made in its application about particular pockets of disadvantage in the area); whereas
- the project summary for the Victorian Department of Transport's project provided to the responsible Minister by his department stated that the applicant's submission was made up of 15 projects, nine of which were located in Priority Employment Areas with the remaining six being located in regions that were rated average (four) or poor (two) under the DEEWR matrix; and it was expected to create six short term and four long term jobs, and retain four short term and 12 long term jobs. The responsible department further advised its Minister that: 'Because the project budget is all inclusive for the 15 projects it has not been possible to identify specific costs against projects located in areas rated average against the Regional Matrix, which would normally not be considered for funding.'

- in the remaining five instances, a pre-treatment risk rating of 'moderate' was allocated, reducing to 'low' post-treatment on the basis that the budget would be confirmed.

**2.95** As outlined further in Chapter 3 of this report, the six projects that were allocated a post-mitigation risk rating of 'low' (rather than 'very low') were disadvantaged in the process by which the successful applications were selected. The first stage of the latter process involved selecting for funding those projects that had been assessed as meeting all criteria except the first gateway criterion (which had been effectively waived in identifying the projects that were to be approved<sup>127</sup>), and had been allocated a post-mitigation risk rating of 'very low'. Accordingly, had the six applications referred to in paragraph 2.94 been allocated a post-mitigation risk rating of 'very low' (rather than 'low'), they would have been selected for funding in this initial tranche.<sup>128</sup>

**2.96** Inconsistent risk ratings were also evident in relation to the 36 applications for which the only three risks identified related to departmental concerns about the basis for the project's cost estimate, project plans/designs having not yet been finalised and the appointment process for the contractor having not yet been completed. This combination of risks was to be managed through the funding agreement by requiring that the proponent confirm the project budget, finalise the project plans/designs and complete the contractor appointment process. Of the 36 applications identified as having this same combination of risks and proposed risk treatments:

- two had been allocated a pre-treatment risk rating of 'high', which was reduced to 'low' on the basis of the standard risk mitigation strategies proposed. One of those two applications was later selected for funding due to its location (see footnote 128), notwithstanding that the

<sup>127</sup> See further at paragraphs 3.23 to 3.27 and 3.37 to 3.43.

<sup>128</sup> As outlined in the Chapter 3 of this report, 146 of the 174 projects (84 per cent) approved in October 2009 for a total of \$23.5 million in funding had been selected on the basis that the responsible department had identified no project risks, or that the risks identified were rated as 'very low' (post-mitigation). To fully allocate the available \$37.9 million in bike paths component funds, a further 28 projects (with total funding of \$14.3 million) were selected from those allocated a post-mitigation risk rating of 'low' so as to 'provide an appropriate balance of investment across jurisdictions'. These 28 projects included only one of the six applications identified in paragraph 2.94 as having been allocated a post-mitigation risk rating of 'low'.

responsible department had assessed that it had not met two of the criteria derived from the Jobs Fund guidelines<sup>129</sup>;

- 15 had been allocated a pre-treatment risk rating of 'moderate' which was reduced to a post-treatment risk rating of:
  - 'low' for 14 projects, of which two were later approved for funding due to their location<sup>130</sup>; and
  - 'very low' for one project, which was approved for funding on the basis of this risk rating (see paragraph 2.95) (it had been assessed as meeting all criteria except the first employment gateway criterion); and
- 19 had been allocated a pre-treatment risk rating of 'low'. For one of these, notwithstanding the application of the standard risk treatments, the post-mitigation risk rating was retained at 'low, rather than being reduced to 'very low', and it was not included in those 'low' rated projects selected for funding on the basis of their location.<sup>131</sup> For the other 18 such projects, a post-mitigation risk rating of 'very low' was assigned, and each was selected for funding on the basis of this risk rating.<sup>132</sup>

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<sup>129</sup> Specifically, Shoalhaven City Council's application for \$750 000 towards the estimated \$1.5 million cost of its project to construct and upgrade cycle ways and footpaths within the central business districts of Nowra and Ulladulla had been assessed as not meeting the requirement that bike path funding be spent by 30 June 2010 or the requirement that the majority of bike path component funding be used for construction work.

<sup>130</sup> One was located in Thurgoona, NSW and the other in Kwinana, Western Australia.

<sup>131</sup> The application, submitted by Baw Baw Shire Council in Victoria, proposed to construct seven sections of pathway (totalling 10.5 kilometres) at four sites in Warragul and three in Drouin. The responsible department had assessed that the project was located in an area of employment vulnerability, thereby meeting the first gateway criterion, but that bike paths component funding was not expected to be fully used by 30 June 2010.

<sup>132</sup> For three of these applications, the department had assessed that the first gateway criterion had not been met, but all other criteria derived from the Jobs Fund guidelines had been met. For the remaining 15 projects, the department had assessed that all criteria derived from the guidelines had been met.

### *Project timing risks*

**2.97** In terms of the second gateway criterion, the Jobs Fund guidelines had stated that applications should:

...

- indicate if the project has been fully scoped and if necessary plans have been prepared
- indicate if relevant licences or approvals have been granted or will be obtained shortly (e.g. building or planning approvals)
- indicate if all required labour, materials and specialist expertise is available within the required timeframes

...

**2.98** Accordingly, given that assessments against the project viability and readiness risk category were intended to be used by the responsible department to inform its assessments against the second gateway criterion, the high proportion of applications identified with project viability and readiness risks could be seen as indicating that a significant proportion of applications to the bike paths component were potentially ineligible for funding. However, the approach taken by the responsible department was to seek to identify ways of managing these risks through the use of standard provisions of the funding agreement or the inclusion of specific milestones, rather than assessing the application as not meeting the second gateway criterion. In addition, as with the applications assessed as representing a risk in terms of the project cost estimate, risk ratings were also not consistently applied in relation to projects identified as representing risks in relation to the timeliness of project completion.

**2.99** Of particular note in this respect was that there were 24 applications where the responsible department's risk assessment identified that project plans/designs had not been finalised; the tendering/contractor appointment process had not been completed; and necessary approvals had not yet been granted. Of those 24 applications, one was allocated both a pre-treatment and post-mitigation risk rating of 'severe'; was assessed as not meeting the second gateway criterion; and was not approved for funding. None of the remaining 23 applications that exhibited the same combination of identified risks were assessed as not meeting the second gateway criterion, and none received a pre-treatment risk rating of either 'high' or 'moderate'. Of these 23 applications:

- eight were allocated a post-mitigation risk rating of ‘very low’ (reduced from a pre-treatment rating of either ‘low’ or ‘moderate’), with the respective project summaries provided to the responsible Minister stating that any risks could be managed through the funding agreement. Each of those eight projects was approved for funding. As it eventuated, five of the projects have had their funding agreements varied on at least one occasion, with four of those agreements being varied at least once in whole or in part due to delays in the relevant projects being commenced and completed; and
- fifteen were allocated a post-mitigation risk rating of ‘low’ (reduced from ‘high’ or ‘moderate’ for 12 applications, and maintained at ‘low’ for a further three applications), with the respective project summaries provided to the responsible Minister stating that any risks could be managed through the funding agreement. Four of the 15 projects were approved for funding. As it eventuated, each of those four projects has experienced delays with work commencing and/or being undertaken.

## Use of risk assessments to select successful applications

**2.100** As outlined at paragraph 2.77, neither the published program guidelines, nor the responsible department’s approach to risk assessment, intended that an application’s assessed level of risk would be used as a primary determinant of whether it would receive funding. Rather, the department intended that its risk assessments would be used to inform its assessments of whether a project had satisfied the second and third gateway criteria. Accordingly, the departmental risks assessments were not planned or conducted in a way that discriminated between competing applications on the grounds of risk. In particular:

- there were inconsistencies identified by both ANAO and a May 2010 internal audit with the risk assessment ratings<sup>133</sup>; and

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<sup>133</sup> See further in relation to ANAO’s analysis at paragraphs 2.86 to 2.99. In addition to ANAO analysis of all project risk assessments, an internal audit conducted within the responsible department in May 2010 found (from a sample of 10 projects selected for analysis) that there were: ‘inconsistencies in the project risk assessment conducted during the grant application assessment. The inconsistencies specifically relate to the assessment made in Section 3.2.2, ‘Is the Project Ready to Start’.’

- the responsible department considered that (subject to meeting the other criteria derived from the Jobs Fund guidelines) any application for which no risks were identified or which was allocated a post-treatment risk rating of 'low' or 'very low' was capable of being considered for funding. This was on the basis that risks assessed at these levels were viewed by the department as acceptable and capable of being managed through a funding agreement. There were 245 applications seeking \$89.96 million in funding for which no risks were identified or the identified risks were considered acceptable. Of those, 181 applications seeking \$66.61 million (76 per cent more than was available under the program) had also been assessed as meeting each of the eight criteria derived from the program guidelines.

**2.101** However, as outlined further at paragraphs 3.23 to 3.24, after the department provided the responsible Minister with the results of its assessment, the Minister decided that the department's risk assessments should play a significant role in the selection of successful applications. The rationale for the approach taken was explained in 9 October 2009 correspondence from the responsible Minister to the then Cabinet Secretary that outlined the projects the responsible Minister intended to approve for funding, as follows:

Given this funding is part of the economic stimulus package, it is my view that priority should be given to those projects assessed by my department as having the lowest post-mitigation risk level. A very low or no risk rating is generally a good indicator that a project is ready-to-go, will be successfully implemented and, accordingly, has the greatest capacity to deliver jobs. There were 147 projects that fell into this category.

The balance of projects proposed for inclusion have all been assessed as low risk post-mitigation, and were selected to provide an appropriate balance of investment across jurisdictions, again with a focus on employment needs in vulnerable communities.

The resultant list, which will be provided in the Cabinet room, includes 169 projects with total recommended funding of \$37 949 229. More than 75 per cent of these projects are in identified priority areas or areas identified as vulnerable to unemployment. All meet the criteria relating to viability and readiness to start, and have indicated an ability to complete by 30 June 2010. All up, these projects will generate total investment in cycling infrastructure across Australia of \$80 million.

I seek Cabinet endorsement of these selected projects, noting that I will exercise approval authority for the purposes of the *Financial Management and Accountability Act* and *Regulations*.

## Conclusion

**2.102** Of the three components of the Local Jobs stream of the Jobs Fund, risk assessment played a relatively limited role in respect to the assessment of applications allocated to the heritage component and, while explicitly provided for in the assessment methodology applied by DEEWR to the general component, did not form part of the scored assessment used to rank projects for funding consideration under that element. In contrast, risk assessment played a key role in the responsible department's assessment of applications allocated to the bike paths component. However, the approach taken to identifying and assessing risks lacked rigour, and risk ratings were not consistently applied across applications identified as having similar risk profiles.

**2.103** Neither the published program guidelines, nor the department's approach to risk assessment, intended that an application's assessed level of risk would be used as a primary determinant of whether it would receive funding.<sup>134</sup> However, in October 2009 a decision was taken to give funding priority to those projects assessed by the department as having the lowest post-mitigation risk level. This approach was adopted on the basis that a 'very low' or 'no risk' rating was considered to generally be a good indicator that a project was ready-to-go, would be successfully implemented and, accordingly, had the greatest capacity to deliver jobs. In this context, the shortcomings in the department's identification and assessment of risks and inconsistencies in the allocation of risk ratings had a significant effect on which applications were awarded funding, and those applications that were unsuccessful.

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<sup>134</sup> Rather, the department intended that its risk assessments would be used to inform its assessments as to: whether projects were viable and ready to start (the second gateway criterion); whether projects would be self-sustaining and not require Commonwealth funding after 30 June 2010 (the third gateway criterion as it applied to the bike paths component); and how well the project proponent could be expected to manage any grant funds it may be awarded.



## Recommendation No.3

**2.104** ANAO recommends that, when conducting risk assessments of applications for funding under grant programs, the Department of Regional Australia, Local Government, Arts and Sport promotes the equitable treatment of applicants and effective management of risk by developing procedures that consistently rate and treat similar risks.

**2.105 Regional Australia response:** Agreed. The Department continues to refine and improve its risk assessment processes including accessing expert independent advice as appropriate to inform decision making. This approach is in place for its current programs, including the Community Infrastructure Grants Program and the Regional Development Australia Fund and builds on processes from the Better Regions program and the Regional and Local Community Infrastructure Program.

### 3. Assessment advice and funding decisions

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*This chapter examines the process by which successful applications were identified under the bike paths component, and the resulting distribution of funding.*

#### Departmental advice on assessment results

**3.1** Providing advice to government is a core function of the Australian Public Service. In particular, robust agency advice to decision-makers is a key underpinning of the various enhancements made in recent years to the Commonwealth's grants administration framework. Specifically, since December 2007<sup>135</sup>, there has been a requirement that Ministers not approve a grant without first receiving agency advice on the merits of the proposed grant. This requirement is now incorporated in the CGGs, which came into effect on 1 July 2009.

**3.2** The requirement for Ministers to be provided with agency advice on the merits of proposed grants, and other related enhancements to the grants administration framework, are designed to assist Ministers to be appropriately informed when deciding whether to approve grants and to enhance accountability for those decisions. The Joint Committee of Public Accounts and Audit recently reiterated the importance of agencies providing advice on the merits of proposed grants before any funding decisions are taken.<sup>136</sup>

**3.3** Against this background, on 7 September 2009, the responsible department advised the responsible Minister of the results of its assessment of projects allocated to the bike paths component of the Jobs Fund. In particular, the department:

- advised the Minister that it had assessed 255 projects, valued at approximately \$104.3 million, for which \$37.9 million of funds was available for projects;
- provided the Minister with a spreadsheet that summarised the department's assessment of each of the 255 applications;

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<sup>135</sup> Through the promulgation of Finance Minister's Instructions.

<sup>136</sup> Joint Committee of Public Accounts and Audit, *Report 423: Review of Auditor-General's Reports Nos 39 2009–10 to 15 2010–11*, Canberra, July 2011, p. viii.

- provided the Minister with a summary of each application. These project summaries outlined: factual information about the applicant and the project; the results of the department's assessment of the application against 'eight requirements drawn from the Jobs Fund guidelines, including the three gateway criteria and target areas'; and the results of the department's risk assessment (including any proposed risk treatments); and
- informed the Minister that the department's assessment was that 182 of the 255 applications met all the criteria of the Jobs Fund guidelines. These projects had collectively applied for \$66.7 million in program funding, \$28.8 million (76 per cent) more than the \$37.9 million that was available.<sup>137</sup>

**3.4** However, despite the competitive nature of the bike paths component, the department did not provide the Minister with any recommendations as to which projects should be approved and which should be rejected (see further at paragraphs 3.9 to 3.22). Instead, the project summary provided to the Minister in respect to each of the 255 applications assessed included provision for the Minister to identify the project as having been either 'approved' or 'not approved', by circling the relevant option. An example of a project summary is included at Appendix 2 to this report. The option to approve or not approve a project was included on all project summaries, regardless of whether the department had assessed the project as meeting all criteria or not.

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<sup>137</sup> As discussed at paragraphs 2.6 to 2.8, the responsible department had earlier provided its Minister with a list of 160 projects which the department advised the Minister appeared to meet all requirements under the program, on the basis of its initial assessment of the 266 projects originally allocated to the bike paths component by DEEWR. The department proposed that those 160 projects form a shortlist of projects that would progress to a full assessment, with the remaining 106 projects to be excluded from further consideration. As noted, the Minister did not agree to the department's recommended shortlisting approach and, instead, required that all applications be subject to a full assessment. Of the original 160 projects, 24 were not included in the final list of 182 projects that were assessed as meeting all relevant criteria. This included one project that had subsequently been withdrawn, as well as three projects that, despite being proposed for shortlisting after initial assessment, were subsequently returned to DEEWR for assessment under a different stream of the Jobs Fund due to having been identified as relating to the construction of footpaths rather than bike paths. The assessment of the remaining 20 projects had changed such that they were no longer assessed as meeting all relevant criteria. The assessment of a further 46 projects which had been excluded from the original list of 160 eligible projects had changed such that they were now assessed as meeting all criteria. In this latter respect, in providing the Minister with the list of 182 projects, the department advised that: 'Where projects were initially considered ineligible they have been contacted and given the chance to reconsider their proposals and provide additional information.' The department did not highlight to the Minister that the assessment of 20 projects previously considered to have met all criteria had changed such that those projects were no longer considered to be eligible for funding.

## Errors and oversights in departmental list of complying applications

3.5 The 7 September 2009 briefing advised the responsible Minister that:

The department's assessment of the [255] projects suggests that 182 projects meet all the criteria of the Jobs Fund guidelines.

3.6 However, the list of 182 projects included 18 applications that did not meet the expectation outlined in the program guidelines that projects funded under the bike paths component would have partner funding of at least 50 per cent.<sup>138</sup> It also included one project for which the application had not identified any jobs, work experience positions or traineeships being either created or retained as a result of the project. In addition, in one instance, the project summary provided to the Minister stated that the relevant project met all criteria but the assessment had actually recorded that the criterion requiring that projects would not occur in 2009–10 without Australian Government funding had not been met.

3.7 Accordingly, on the basis of the responsible department's assessments, there were a total of 162 applications allocated to the bike paths component that:

- met each of the eight criteria derived from the guidelines by the department. In respect to the unemployment gateway criterion, this was on the basis of either being located in a Priority Employment Area or an area identified with employment vulnerability by the DEEWR Regional Matrix, or on the basis of some other indicator of particular vulnerability;
- met the expectation outlined in the guidelines for partner funding of at least 50 per cent of the project budget;
- had no identified risks, or for which the identified risks were considered acceptable and able to be managed through the funding agreement; and
- would create, or result in the retention of, at least one job (including work experience positions or traineeships).

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<sup>138</sup> See discussion at paragraphs 2.14 to 2.18.

**3.8** Collectively, these 162 applications that the departmental analysis indicated met the published requirements had sought \$58.75 million in program funding, 55 per cent more than the \$37.9 million that was available to fund bike path construction projects. Of those 162 applications, 99 projects (seeking \$40.67 million, seven per cent more than the available funding) were located in a Priority Employment Area.

## **Agency recommendation concerning which applications should be awarded funding, and those that should be rejected**

**3.9** As noted at paragraph 3.1, since December 2007 the grants administration framework has required departments to provide advice to Ministers on the merits of each proposed grant relative to the guidelines for the relevant program. Meeting this obligation requires an agency to provide a clear recommendation to the Minister concerning whether or not funding should be approved under the applicable guidelines.<sup>139</sup>

**3.10** It is important to recognise that Ministers are not obliged to accept or agree with the assessments and/or funding recommendations of officials or other advisory bodies. In this context, however, the provision by agencies of advice on the merits of proposed grants (including the basis for selecting between competing proposals where a competitive selection process is used), is also important in assisting Ministers to meet their obligations under the financial framework when they are undertaking the statutory function of approving a proposal to spend public money (under FMA Regulation 9).<sup>140</sup> In particular, as part of the enhanced grants administration framework, FMA Regulation 12 was amended from 1 July 2009 to require approvers of grants to include in the approval record the basis on which he or she was satisfied that the spending proposal met Regulation 9. In this context, guidance from the Department of Finance and Deregulation (Finance) and reflected in ANAO's Better Practice Guide is that where decision-makers:

<sup>139</sup> See ANAO Audit Report No. 30 2009–10, *Management of the Strategic Regional Program/Off-Network Program*, Canberra, 22 April 2010, p. 80 and ANAO Better Practice Guide, op. cit., p. 77.

<sup>140</sup> The principal obligation applying to the approval of all spending proposals is set out in Regulation 9, which requires an approver to make reasonable inquiries in order to be satisfied that a proposal would be a proper use of Commonwealth resources and would not be inconsistent with the policies of the Commonwealth. For grant spending proposals, the relevant policies include the CGGs and the specific guidelines established for the relevant program.

- agree with the agency recommendation in respect to a proposed grant (irrespective of whether the recommendation was that it be approved or not approved), they are able to point to the agency assessment against the program guidelines as documenting the basis on which they have concluded whether or not the grant satisfied the requirements of Regulation 9 (as long as they are satisfied that the assessment was conducted with rigour);
- agree with an agency recommendation to approve the grant, but for reasons different from, or additional to, those put forward by the agency as the proposed basis for approval, they will need to document the basis on which he or she reached any decision to award funding; or
- decide to approve a grant that the agency had, based on its assessment, recommended be rejected or in respect to which the agency did not make a clear recommendation for approval, they will be required to separately document the substantive reasons for the approval, either at the time of giving the approval or as soon as practicable thereafter.<sup>141</sup>

**3.11** As is reflected in the related provisions of the CGGs, the requirement for agencies to provide advice to Ministers on the merits of proposed grants does not affect a Minister's right to decide on the awarding of grants.<sup>142</sup> Rather, it is designed to ensure that, where Ministers elect to assume a decision-making role in relation to the award of grants, they are well-informed of the departmental assessment of the merits of grant applications and suitably briefed on any other relevant considerations and to promote transparency of the reasons for decisions.<sup>143</sup>

**3.12** As outlined in ANAO's Better Practice Guide, an appropriately conducted competitive, merit-based grant selection process involves all eligible, compliant applications being assessed by the relevant agency in the same manner against the same criteria, with the outcome of these assessments then being used by the agency to rank each application in priority order.<sup>144</sup>

<sup>141</sup> As noted, the CGGs require that Ministers report annually to the Finance Minister on all instances where they have decided to approve a grant that the agency recommended be rejected, including a brief statement of the basis for the approval (see further in Chapter 3 of this audit report).

<sup>142</sup> Specifically, inclusion of the obligation for Ministers to advise the Finance Minister of grants they have approved that the relevant agency had recommended be rejected implicitly acknowledges that Ministers are not required to agree with agency recommendations when considering whether to approve a grant.

<sup>143</sup> *Strategic Review of the Administration of Australian Government Grant Programs*, op. cit., p. 7.

<sup>144</sup> ANAO Better Practice Guide, op. cit., p. 75.

This ranking forms the basis of the agency's recommendations as to which applications should be awarded grant funding, with these recommendations together with the ranking and underlying assessment information provided to the decision-maker for his or her consideration.

**3.13** In this context, it is important that agencies avoid placing their Minister in a position where the Minister, or his or her Office, must compensate for the absence of appropriate and complete agency advice by seeking to separately develop and apply a methodology for identifying the most meritorious projects for funding (in terms of the published program guidelines). This is particularly the case having regard to the requirements and underlying policy intent of the enhanced grants administration framework.

### **Recommendations not provided to the responsible Minister**

**3.14** As noted, the responsible department did not provide recommendations to the responsible Minister about which projects should be approved under the bike paths component of the Jobs Fund within the available funding of \$37.9 million. This was the case notwithstanding that insufficient program funding was available to approve all 182 applications (seeking \$66.7 million) that the department had advised the Minister met all relevant criteria set out in the program guidelines (see paragraph 3.3). As has been outlined in earlier ANAO audit reports<sup>145</sup>, not providing a Ministerial decision-maker with recommendations as to which grant applications should be approved within the available program funding, and which should be rejected, represents a significant failing by the relevant department in respect to the provisions of the grants administration framework.<sup>146</sup>

**3.15** The responsible department also did not rank the listed projects in any order of merit or otherwise recommend to the responsible Minister a process by which the 182 applications assessed as meeting all criteria could be appropriately narrowed to identify those that were most meritorious in terms of the program objectives. In this respect, one area that would have benefited from further departmental analysis related to discriminating between projects

<sup>145</sup> See ANAO Audit Report No.30 2009–10, op. cit., p. 80 and ANAO Audit Report No.3 2010–11, op. cit., p. 22.

<sup>146</sup> In another recent audit report, the department accepted that meeting the obligation to provide advice on the merits of a proposed grant includes a clear agency recommendation to the Minister concerning whether or not funding should be approved under the relevant program's guidelines. Source: ANAO Audit Report No.30 2009–10, op. cit., p. 80.

that were located in a Priority Employment Area, and those that were not. Such an approach would have been consistent with:

- the Jobs Fund program guidelines, which had stated (through the first gateway criterion) that successful projects must be in areas experiencing high unemployment, a significant rise in unemployment or vulnerability. Whilst, as noted<sup>147</sup>, the guidelines did not stipulate that projects had to be in a Priority Employment Area in order to be successful, the methodology used by DEEWR to identify the Priority Employment Areas involved identifying those regions with labour markets that had been assessed as most likely to experience labour market disadvantage and deterioration as a result of the global financial crisis;
- for the general component of the first round of the Local Jobs stream and the first round of the Get Communities Working stream, DEEWR gave priority to projects with high job creation/retention that were located in Priority Employment Areas or the Victorian Bushfire region first, with these projects exhausting the \$100m in funding that was initially available<sup>148</sup>; and
- the interim *Keep Australia Working* report<sup>149</sup> released in July 2009 made a number of recommendations to enhance government action in the areas of greatest immediate stimulus need. They included considering how in the future to best focus the Jobs Fund on projects in Priority Employment Areas that would produce local jobs for local people, training and apprenticeships and pathways to long-term employment. In this respect, the interim report advised that:

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<sup>147</sup> See paragraphs 1.9 and 2.46.

<sup>148</sup> Specifically, on 30 July 2009, the departmental delegate approved funding totalling \$107.6 million for 125 projects across the Local Jobs and Get Communities Working streams, compared with announced available funding of \$100 million. Following discussions with the then Minister for Employment Participation, further funding of \$40 million was made available for the first round of the general component of the Local Jobs stream and the Get Communities Working stream, with the department then further considering projects from non-Priority Employment Area locations, as well as highly rated but previously unfunded projects in some Priority Employment Areas. See further at paragraph 2.46 and footnote 91.

<sup>149</sup> On 14 June 2009, the then Deputy Prime Minister asked the then Minister for Employment Participation and the then Parliamentary Secretary for Employment to develop a whole of government strategy to build on existing initiatives to support Australian jobs. The strategy was entitled 'Keep Australia Working'.



The Jobs Fund is a targeted fund designed to support jobs. The 20 Local Priority Employment Areas have been identified as those areas with the greatest need for direct assistance. We therefore believe that it is appropriate that, in future, these funds are targeted to those areas.<sup>150</sup>

**3.16** Inclusion in the advice provided to decision-makers of formal recommendations that a proposed grant be approved or rejected, and the reasons for the recommendation, will assist in highlighting to approvers those instances in which it will be necessary for them to document the basis for any decision to approve the grant.<sup>151</sup> In that context, an internal audit of the bike paths component was conducted in May 2010, with the objective of assessing whether the responsible department was complying with the program guidelines, internal assessment procedures and contracting procedures.

**3.17** In respect to the information provided by the department to inform the responsible Minister's decision-making, the internal audit report noted the absence of any recommendation from the department as to which projects should be approved for funding and found that there was a risk that Regulation 12 had been breached because there was insufficient documentation to record the basis on which funding decisions were subsequently made. Consistent with the internal audit recommendation that it further investigate this issue, the department obtained legal advice which concluded that Regulation 12 had not been complied with in approving projects under the bike paths component of the Jobs Fund.

**3.18** As noted at paragraph 3.36, on 9 October 2009, the responsible Minister's Office provided his department with a list of 170 projects that the Minister intended to take forward to Cabinet the following week. As also noted (see paragraph 2.101), 9 October 2009 correspondence from the Minister to the then Cabinet Secretary had outlined the basis on which the Minister had selected those projects from within the 255 applications assessed. However, for a number of reasons, this correspondence does not meet the requirement stipulated under Regulation 12, including:

- Regulation 12 is directly linked to the decision to approve a spending proposal under Regulation 9. In this respect, the Minister's letter to the

<sup>150</sup> Senator the Hon Mark Arbib, Minister for Employment Participation and The Hon Jason Clare MP, Parliamentary Secretary for Employment, *Keep Australia Working* Interim Report, July 2009, p. 20.

<sup>151</sup> ANAO Better Practice Guide, op. cit., p. 77.

Cabinet Secretary pre-dated the approval of all but three bike path component projects for the purposes of Regulation 9, and made clear that the Minister would be exercising approval authority under Regulation 9. As discussed at paragraph 3.45, the make-up of the 174 projects ultimately approved in October 2009 excluded one of the 'low' risk-rated projects that had been included in the list of 170 considered by Cabinet and included an additional five 'low' risk-rated projects; and

- the requirement under Regulation 12 is not for an approver to document the reasons for approving a grant. Rather, it is a more specific requirement to record the basis on which the approver is satisfied that the proposed grant complies with Regulation 9, which stipulates certain tests that must be satisfied in order for the approval to be given. This includes that a proposed grant must be consistent with the policies of the Commonwealth, including the guidelines issued in respect to the relevant grant program (see CGGs paragraph 3.17), which was not the case in respect to a number of the successful applications considered under the bike paths component.<sup>152</sup>

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<sup>152</sup> The Jobs Fund program guidelines had stipulated that:

- all projects must meet each of the three gateway criteria in order to be considered for funding under any stream, including that projects must be located in areas experiencing high unemployment, a significant rise in unemployment or vulnerability (gateway criterion one). In this respect, the Minister's letter advised that, of the projects proposed for selection 'more than 75 per cent of these projects are in identified priority areas or areas identified as vulnerable to unemployment', thereby implicitly acknowledging that not all of the listed projects had been assessed as meeting this criterion. Of the 174 projects ultimately approved in October 2009, 45 (26 per cent) had been assessed as not meeting gateway criterion one. The Minister's 9 October 2009 letter did not identify the basis on which the Minister had been satisfied that those projects were, nevertheless, consistent with the requirements of the program guidelines;

Footnote continued on the next page...

**3.19** In the context of an earlier audit of another competitive, application-based grant program also conducted by the department in calendar 2009 (the Strategic Projects component of the RLCIP program), ANAO noted that a letter similar to the 9 October 2009 letter in respect to the bike paths component had been prepared to outline the rationale applied in selecting the successful applications to the Strategic Projects component. In that audit report, ANAO outlined that, just as specifying the assessment criteria in program guidelines does not obviate the need for a record as to how the criteria were applied to each competing application, Ministerial correspondence of this nature alone does not provide a sufficient record of the assessments that had been undertaken and, in particular, the basis for why it was decided that certain applications were more worthy of being approved for funding compared with other applications.<sup>153</sup>

**3.20** In that earlier audit, ANAO had similarly concluded that the department had not met its obligation to provide the responsible Minister with advice as to which applications were recommended for approval within the available funding. Specifically, ANAO's July 2010 audit report concluded that:

While the risk assessment results were provided to its Minister, the department did not provide recommendations to the Minister about which

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- all projects would be assessed against the criteria set out in the guidelines on their merits and in comparison to other project proposals. In that context, it would be necessary for the record of approval to document the basis on which certain projects were selected for approval under the competitive bike paths component and others were not. In this respect, the Minister's letter advised that the projects that had been allocated the lowest post-mitigation risk level had been selected on the basis that: 'a very low or no risk rating is generally a good indicator that a project is ready-to-go, will be successfully implemented and, accordingly, has the greatest capacity to deliver jobs'. The Minister's letter advised that the remaining projects were selected due to being allocated a 'low' post-mitigation risk rating, but did not identify the basis on which the 24 such projects ultimately approved were selected from amongst the 96 projects that had been allocated that same risk rating, other than 'to provide an appropriate balance of investment across jurisdictions, again with a focus on employment needs in vulnerable communities.' As noted at footnote 168, the program guidelines did not include any provision for distribution across jurisdictions to be a criterion on which the selection of successful applicants would be based. Further, this generic advice did not explain the basis of each decision to approve or not approve a project from within the 96 'low' risk-rated projects. For example, 63 of those 96 projects had been assessed as meeting all criteria, of which 20 were approved. Nine of the remaining 33 'low' risk-rated projects, which had not met all criteria, were approved. Despite the Minister's letter advising that the projects were selected for approval from within the 'low' risk-rated projects 'with a focus on employment needs in vulnerable communities,' seven of those nine projects had not met gateway criterion one; and
  - for bike paths component projects, a joint funding contribution of 50 per cent would be expected. In this respect, the relevant project summaries had identified the level of co-funding as being less than 50 percent for 15 of the 174 projects ultimately approved in October 2009. The Minister's letter did not identify that basis on which the Minister had been satisfied that these projects were, nevertheless, consistent with the program guidelines.

<sup>153</sup> See further in ANAO Audit Report No.3 2010–11, op. cit., p. 44.

projects should be approved within the available funding of \$550 million. This was a significant failing on the part of the department given that, since December 2007, the enhanced grants administration framework has required departments to provide advice to Ministers on the merits of each grant application relative to the guidelines for the program.<sup>154</sup>

**3.21** Departmental advice in respect to the bike paths component of the Jobs Fund had been provided to the responsible Minister prior to the findings of ANAO's audit of the Strategic Projects component being communicated to the department. In response to that audit report, the department indicated to ANAO that it now had a better appreciation of its obligations under the enhanced grants administration framework, and that procedures would be implemented to provide a clear agency recommendation to the Minister concerning whether or not funding should be approved in respect to each application to competitive, merit-based grant programs it administers.<sup>155</sup>

**3.22** Against this background, a recent cross-portfolio ANAO performance audit of the administration of grant reporting obligations under the enhanced grants administration framework concluded<sup>156</sup> that:

Key underpinnings of the grant reporting arrangements are that Ministers not approve a proposed grant without first receiving agency advice on its merits relative to the program's guidelines; and report to the Finance Minister all instances where they approve grants that the relevant agency recommended be rejected...Providing Ministers with a recommendation as to whether a proposed grant should be approved or rejected enhances the capacity of agencies and Ministers to meet related reporting obligations. It also assists Ministers to identify those occasions where it will be necessary to separately record the basis for any decision to approve a grant to comply with their broader obligations when acting as a financial approver in relation to grants.<sup>157</sup>

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<sup>154</sup> *ibid.*, pp. 21–22.

<sup>155</sup> *ibid.*, p. 22.

<sup>156</sup> ANAO Audit Report No.21 2011–12, *Administration of Grant Reporting Obligations*, Canberra, 24 January 2012, p. 15.

<sup>157</sup> As discussed at paragraph 3.10 one of the statutory requirements introduced as part of the new grants administration framework was the amendment of FMA Regulation 12 from 1 July 2009 to require that, when approving a grant, approvers (including Ministers) must record the reasons for the approval. This does not apply to other types of spending proposals (in respect to which approvers are only required to record the terms of the approval). Between January 2009 and 30 June 2009, Finance Minister's Instructions required Ministers to record the basis of any approval of a grant the relevant agency had recommended be rejected, and that this should take the form of a written statement of the reasons for the decision.

## Iterative process adopted to selection of successful applications

**3.23** After considering the assessment material provided by the department with its 7 September 2009 briefing (see paragraph 3.3), following discussions, on 30 September 2009 the Minister's Office provided the department with a spreadsheet<sup>158</sup> titled 'least risk bike paths'. The spreadsheet listed 148 projects that were collectively seeking grants to the value of \$27.3 million. The 148 projects comprised:

- 108 (59 per cent) of the 182 applications the department had ultimately assessed as meeting all the criteria of the Jobs Fund guidelines; and
- 40 (55 per cent) of the 73 applications that the department had ultimately assessed as failing to meet at least one of the criteria of the Jobs Fund guidelines.

**3.24** The responsible department provided its Minister and his Office with advice on this list the following day. Amongst other things, the department outlined what it understood to be the selection method that had been adopted, namely that the list comprised projects that:

- had been assessed as meeting seven of the eight criteria derived from the program guidelines by the department.<sup>159</sup> In this respect, the eighth criterion that projects were assessed against by the department was the unemployment gateway criterion stipulated in the published guidelines (gateway criterion one). Applications that had been assessed as not meeting that criterion were not excluded from the list of 148 projects provided to the department by the Minister's Office; and
- had either no identified risks or the assessed level of risk (after the application of risk treatments) was rated 'very low'.

**3.25** The department also corrected the list that had been provided to it to remove a small number of projects that were inconsistent with this selection methodology, and add a small number of projects that had not been included on the list despite their respective assessments being consistent with the

<sup>158</sup> The spreadsheet provided to the department by the Minister's Office was based on a spreadsheet that had been earlier provided to the Minister's Office by the department in connection with its 7 September 2009 advice (see paragraph 3.3).

<sup>159</sup> See paragraph 2.12 and Appendix 1.

selection methodology understood by the department to have been applied.<sup>160</sup> In addition, the department recorded that it was in the process of actioning a request from the Minister's Office that it check that the list of projects being proposed for funding included at least one project in each Priority Employment Area (where applications had been received from the area).<sup>161</sup>

**3.26** On 1 October 2009, the responsible department provided a revised spreadsheet listing 147 projects to the responsible Minister and his Office. The revised spreadsheet also included summary data of the projects being proposed for funding on a state by state basis, as well as on applications in the list that were located in each Priority Employment Area. In addition, on 7 October 2009, the Minister's Office was advised as follows:

Job Criteria review

Of the 147 projects listed in the spreadsheet provided, 40 (27 per cent) have been assessed as not meeting criterion 1—Projects in areas experiencing high unemployment or a significant rise in unemployment or vulnerability.

**3.27** On 8 October 2009, the department provided the Minister's Office with a further revised spreadsheet, indicating which of the 147 projects being proposed for funding had been assessed as not meeting the unemployment gateway criterion. However, the department did not draw to the attention of the Minister and/or his Office:

- the requirement under the published Jobs Fund guidelines that projects must meet all three gateway criteria in order to be considered for funding under any stream of the Jobs Fund<sup>162</sup>; or

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<sup>160</sup> However, whilst the department identified that the Minister's Office had overlooked one 'very low' risk-rated project in the list circulated on 30 September 2009, the department had not identified a further application not included on the list which it had similarly assessed as representing a 'very low' risk. This application, submitted by Fairfield City Council, sought \$81 841 towards the \$183 682 estimated cost of constructing secure bicycle parking facilities at various locations within the council area so as to encourage the community to cycle to access the various industrial, educational and retail precincts. The department's project summary had advised the Minister that the project was located in the Canterbury-Bankstown and South Western Sydney (NSW) Priority Employment Area and had been assessed as meeting all criteria derived from the Jobs Fund guidelines. In January 2012, Regional Australia advised ANAO that it had: 'checked the program records and cannot find an explanation for [*the Minister's Office not being advised that this project should be included in the list of 'very low' risk projects being considered for funding*] and considers that it could have been an administrative error'.

<sup>161</sup> See further at paragraph 3.39.

<sup>162</sup> Jobs Fund Guidelines, 18 April 2009, p. 4.

- that the published guidelines had not provided any scope to waive any of those gateway criteria, including the first gateway criterion (that projects be located in areas experiencing high unemployment, a significant rise in unemployment or vulnerability).

**3.28** Against this background, Regional Australia advised ANAO in January 2012 that:

The main brief of 7 September 2009 provided an assessment of projects. The subsequent sorted spreadsheets were subsets requested by the Minister. In addition, Jobs Funds Guidelines were provided to the Minister.

### **Initial project approvals on 1 October 2009**

**3.29** On 1 October 2009<sup>163</sup>, the then Prime Minister and the responsible Minister jointly announced funding for three bike path projects in Geraldton, Western Australia.<sup>164</sup> Each of the three projects had been included on the list of 148 projects provided to the department by the Minister's Office on 30 September 2009 (see paragraph 3.23).

**3.30** As noted at paragraph 3.3, the department had provided the responsible Minister with project summaries for all 255 assessed projects on 7 September 2009. However, at the time of the 1 October 2009 announcement of the first three projects, the department had not received any project summaries annotated with a project approval back from the Minister's Office. On 7 October 2009, the department provided the Minister's Office with further copies of the project summaries for these three projects, and for a further two projects located in the Northern Territory. The department advised the Minister's Office that:

Please note that in order to meet Regulation 9 compliance the project summaries need to be signed by the Minister on the day the announcement or decision was made. If for any reason, the approval is conditional on other requirements than what is in the project summary, this must be annotated on the project summary sheet when it is signed to ensure it is captured in the negotiations and funding agreement conditions.

<sup>163</sup> On that date, a community cabinet meeting was being held in Geraldton, Western Australia.

<sup>164</sup> The Hon Anthony Albanese MP, Minister for Infrastructure, Transport, Regional Development and Local Government and The Hon Kevin Rudd MP, Prime Minister, *Economic Stimulus: New Cycle Facilities for Geraldton*, Joint Media Statement, AA412/2009, 1 October 2009.

**3.31** Copies of the project summaries for these five projects that had been signed by the responsible Minister were received by the department the following day. However, as the signed summaries did not explicitly identify that funding had either been approved or not approved (by circling the relevant option), they were returned to the Minister's Office in order for the Minister's intention to be recorded. Amended summaries for the five projects were received by the department on 23 October 2009, indicating that the three Geraldton projects had been approved on 1 October 2009 and the two Northern Territory projects had been approved on 14 October 2009.

**3.32** The three approved Geraldton projects and two approved Northern Territory projects had been assessed by the department as meeting each of the criteria drawn from the Jobs Fund guidelines, including the three gateway criteria.<sup>165</sup> With the exception of one of the Northern Territory projects, each had also been assessed as representing a 'very low' post-treatment risk.

**3.33** The other Northern Territory project recorded as having been approved on 14 October 2009 had been proposed by the responsible department for removal from the list of 148 'least risk bike paths' projects circulated by the Minister's Office on 30 September 2009 (see paragraph 3.23) because it had been assessed as having a 'low' risk rating, rather than the rating of 'very low' risk or no residual risks that the department understood to have been the selection methodology used in compiling the list (see paragraphs 3.24 to 3.25). However, although the project had not been included by the department in the revised list of 147 applications sent to the responsible Minister and his Office on 1 October 2009, the following day the department recorded that it had contacted the proponent (Darwin City Council):

to see if they are still able to complete the project before 30 June 2010 given the fact that we are now in October but have not yet received a response.<sup>166</sup>

**3.34** The department further recorded that:

The applicant has put a great deal into their application and have undertaken a business plan and feasibility study for the project. They have also undertaken

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<sup>165</sup> None of these five projects was located in a Priority Employment Area, or in an area classified by DEEWR through its risk matrix as having a labour market that was vulnerable to the effects of the economic downturn. However, each project was assessed by the responsible department as being located in an area of unemployment vulnerability based on other factors.

<sup>166</sup> On 6 October 2009, the department recorded that Darwin City Council had confirmed that it could complete the project prior to 30 June 2010.



community consultation with various local and state stakeholders, including local bicycle bodies.

The pre-treatment risk was identified as moderate which is largely attributed to the amount of funding sought by the application (\$1.054 million) with the post-treatment risk identified as Low. The risks identified in the assessment can be easily treated through the Funding Agreement with the provision of final design plans and confirmation of the final Budget.

**3.35** The department further recorded that it had provided this information to the responsible Minister. However, no record was made of the reason for the department initiating this post-assessment contact with this particular applicant or for providing the Minister with supplementary information in relation to factors that could be taken as further mitigating the assessed risk associated with this project. Further, no steps were taken to ensure that a consistent approach was taken to other applications in similar circumstances. Specifically, there were a further:

- five applications, seeking between \$74 545 and \$446 960, where the only project viability and readiness risks identified had been similar to those identified for the Darwin City Council project, for which similar risk mitigation measures were also proposed. Demonstrating some inconsistency in the risk rating processes and the impact that this had on whether applications were successful:
  - three of these projects had been allocated a pre-mitigation risk rating of ‘moderate’ and a post-mitigation rating of ‘low’<sup>167</sup>, such that these three projects were not included in the list of 147 projects being considered for funding on the basis of the risk assessment, and they were not otherwise approved for funding; and
  - two of these projects were allocated a pre-mitigation risk rating of ‘low’ and a post-mitigation rating of ‘very low’, such that each was included in the list of 147 projects that was approved for funding on the basis of the risk assessment; and
- 22 applications that had sought \$1 million or more and had been allocated a final post-treatment risk rating of ‘low’, but there was no

<sup>167</sup> That is, the same risk ratings both pre- and post-mitigation as those of the Darwin City Council application which had sought significantly more Australian Government funding.

documented evidence that, in light of the decision to award funding to the Darwin City Council project, the responsible department re-examined the final post-treatment risk rating for those applications or otherwise advised the responsible Minister in case an application's risk rating of above 'very low' was similarly largely attributable to the amount of funding being sought.

## **9 October 2009 list prepared for Cabinet meeting**

**3.36** On 9 October 2009, the Minister's Office provided the responsible department with a list of 170 projects that the Minister intended to take forward to Cabinet the following week, with a total funding value of \$37 949 220. Although the number of projects (170) differed from that advised to the Cabinet Secretary (169), the total funding value was the same as that stated by the Minister in his letter to the then Cabinet Secretary. As noted at paragraph 2.101, the responsible Minister advised the Cabinet Secretary that he was seeking Cabinet endorsement of the selected projects, but that the Minister would be exercising approval authority for the purposes of the FMA Act and Regulations (and, accordingly, the grants administration framework).

### ***Not applying the published selection criteria***

**3.37** The list of 170 projects comprised the 147 projects selected on the basis that they represented the lowest risk (see paragraph 3.26), together with 23 of the 96 projects that had been assessed as representing a 'low' post-mitigation risk. The correspondence from the responsible Minister to the then Cabinet Secretary stated that these 23 applications had been selected (from the 96 with a similar risk rating) to 'provide an appropriate balance of investment across jurisdictions'<sup>168</sup> and 'with a focus on employment needs in vulnerable communities'.<sup>169</sup> Of these 23 projects:

- 13 were located in a Priority Employment Area (and therefore clearly met the unemployment gateway criterion) and had been assessed as meeting all remaining criteria derived from the Jobs Fund guidelines;

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<sup>168</sup> While the Jobs Fund was designed to be location-specific (in that it was intended to target funding to areas experiencing high unemployment, a significant rise in unemployment or vulnerability), the published Jobs Fund guidelines did not include any provision for distribution across jurisdictions to be a criterion on which the selection of successful applicants would be based.

<sup>169</sup> See further at paragraph 2.101.

- five were not located in a Priority Employment Area but had, nevertheless, been assessed by the responsible department as having met the unemployment gateway criterion (two projects on the basis of the DEEWR unemployment risk matrix, and three projects on the basis of a departmental assessment that they were otherwise located in an area of vulnerability), as well as meeting all remaining criteria derived from the Jobs Fund guidelines; and
- five had been assessed as meeting seven of the eight criteria derived by the responsible department from the Jobs Fund guidelines. In each instance, the criterion assessed as not having been met was the unemployment gateway criterion.

**3.38** As noted at paragraph 3.26, 40 (27 per cent) of the 147 'very low' risk-rated projects selected for funding had similarly been assessed as not meeting gateway criterion one. Accordingly, 45 applications included in the list of 170 prepared for Cabinet consideration involved projects where the department had assessed that the unemployment gateway criterion had not been met. The basis or rationale for considering the approval of projects that had been assessed as ineligible under the terms of the program guidelines was not documented.

**3.39** On 12 October 2009, the day prior to the Cabinet meeting, at the request of the responsible Minister's Office, the department provided the Minister's Office with a list of 45 projects in Priority Employment Areas that had not been included in the 170 applications listed for Cabinet consideration. For 39 of those 45 applications, the department had assessed that the post-mitigation level of risk was acceptable and could be managed (of those projects for which risks had been identified, none had been assessed as higher than a 'low' risk). However, for three of those 39 projects, the department had concluded that funding would not be spent by 30 June 2010, as required under the guidelines.<sup>170</sup> Accordingly, there were 36 projects that were not proposed to be awarded funding notwithstanding that they:

- were located in a Priority Employment Area (and, therefore, clearly met the unemployment gateway criterion);

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<sup>170</sup> For one of these projects, the department had also assessed that the project would not commence within six months of a funding agreement being signed, as required under the guidelines.

- had been assessed as meeting all criteria derived from the Jobs Fund guidelines; and
- had been assessed as representing an acceptable level of post-mitigation risk.

**3.40** However, the provision of this list did not result in any of these projects being included in the list being proposed for funding.

**3.41** There were a further 20 projects not located in a Priority Employment Area that were similarly not proposed to be awarded funding notwithstanding that they had been assessed as:

- meeting the unemployment gateway criterion<sup>171</sup>, as well as all other criteria derived from the Jobs Fund guidelines; and
- representing an acceptable level of post-mitigation risk.

**3.42** As noted at paragraph 3.27, the department did not draw to the attention of the responsible Minister and/or his Office that the published Jobs Fund guidelines had not provided any scope to waive the mandatory gateway criteria in respect to the bike paths component, or any other element of the Jobs Fund.<sup>172</sup> Nor did the department otherwise alert the Minister and/or his Office that proceeding with the selection of successful applications on the basis proposed presented challenges in the context of the enhanced grants administration framework. Specifically:

- ANAO's audit of the former Regional Partnerships Program administered by the then Department of Transport and Regional Services<sup>173</sup> concluded that a feature of the operation of that program had been the extent to which departmental assessments and/or

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<sup>171</sup> Ten projects were assessed as meeting this criterion on the basis of the DEEWR unemployment risk matrix and a further ten projects had been assessed as being otherwise located in an area of unemployment vulnerability.

<sup>172</sup> By way of comparison, bike paths component funding was subsequently withdrawn from one proponent in respect to two of its successful applications due to identified non-compliance with one of the gateway criteria. Specifically, in advising the City of Joondalup that funding approval was being withdrawn in respect to two of its applications, the responsible department advised that, due to delays with the two projects being able to commence and complete (as a result of delays in obtaining the necessary approvals): 'it is deemed the projects do not comply with the gateway criteria set out in the Jobs Fund Guidelines of being ready to start and able to complete prior to 30 June 2010.'

<sup>173</sup> As noted at footnote 75, the division within the then DITRD LG (and then Regional Australia) responsible for administering the bike paths component of the Jobs Fund had previously been part of this department.

Ministerial funding decisions, for certain applications, waived or failed to apply stated eligibility or assessment criteria, with the department agreeing to a recommendation that it document in grant program guidelines the circumstances in which eligibility and assessment criteria may be waived<sup>174</sup>;

- in drawing upon the experience from this and other ANAO audits of grant programs, the July 2008 report of the Strategic Review of Grants had observed that:

There is a higher risk to the Commonwealth, and to the achievement of program objectives, where administrative and decision-making processes depart from those set out in the published program guidelines and the complementary departmental procedures. Where the waiver of a particular eligibility criterion is proposed in particular circumstances, it is important that this should be appropriately documented and approved by the responsible decision-maker. The circumstances in which such a waiver may be appropriate should be identified and documented as part of the planning process.<sup>175</sup>; and

- accordingly, the CGGs issued in July 2009 (three months prior to funding decisions being taken in respect to the bike paths component) had provided that:

There may be instances where it is considered necessary to waive or amend the eligibility and assessment criteria established for a granting activity, in whole or in part. Such instances may include emergencies, urgent or unforeseen circumstances, and exceptional circumstances.

- In the interests of transparency, accountability and equity, grant guidelines should document the circumstances in which the eligibility and assessment criteria set out in grant guidelines may be waived or amended. Guidelines for new grant programs require ERC consideration and these issues should be addressed in that context.
- Agencies should seek appropriate authority before invoking provisions for waiving or amending eligibility and assessment criteria. Careful consideration should be given to seeking Ministerial authority in these circumstances, and appropriate records should be kept.<sup>176</sup>

<sup>174</sup> ANAO Audit Report No. 14 2007–08, *Performance Audit of the Regional Partnerships Program*, Volume 1—Summary and Recommendations, Canberra, 15 November 2007, pp. 57 and 123.

<sup>175</sup> Mr Peter Grant PSM, *Strategic Review of the Administration of Australian Government Grant Programs*, 31 July 2008, p. 56.

<sup>176</sup> Commonwealth Grant Guidelines, op. cit., p. 29.

**3.43** In this respect, ANAO further notes that it was not necessary to approve applications assessed as not meeting the unemployment gateway criterion in order to fully allocate the available program funding to suitable projects within the context of the Jobs Fund. Specifically, based on the results of the department's assessment work, there were 99 applications seeking \$40.67 million (more than the \$37.9 million available) that:

- met each of the eight criteria derived from the guidelines by the department including, in respect to the unemployment gateway criterion, due to being located in one of the Priority Employment Areas that had been agreed by the Government and which the July 2009 interim *Keep Australia Working* report had recommended should be the focus of future Jobs Fund funding<sup>177</sup>;
- met the expectation outlined in the guidelines for partner funding of at least 50 per cent of the project budget;
- had no identified risks, or for which the identified risks were considered acceptable and able to be managed through the funding agreement; and
- would create or retain at least one job (including work experience positions and traineeships) in a Priority Employment Area.

## Projects approved for funding

**3.44** Between 1 and 14 October 2009, a total of 174 projects were approved by the responsible Minister for a total of \$37.87 million in bike paths component funding. This comprised 146 projects for which no risks had been identified or the assessed level of risk was rated 'very low', and the 28 projects that were selected from the 96 applications with an assessed 'low' level of risk so as to provide 'an appropriate balance of investment across jurisdictions'. No formal decision was recorded that the remaining projects allocated to the bike paths component were not approved for funding.<sup>178</sup>

**3.45** Compared to the list of 170 projects prepared for the Cabinet's consideration (see paragraph 3.36), there were some changes in the identity of

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<sup>177</sup> See paragraph 3.15.

<sup>178</sup> As discussed at paragraph 3.4, the project summaries prepared by the responsible department in respect to each of the 255 assessed projects provided the capacity for the responsible Minister to formally record that he had either decided to approve the project or to not approve the project.

the 174 projects approved by the responsible Minister subsequent to that meeting. Specifically:

- one 'low' risk-rated project that had been included in the list of proposed projects provided for the Cabinet meeting was not included in the projects subsequently approved for funding by the responsible Minister in October 2009. The application for that project had sought \$1.5 million in Australian Government funding. However, funding for this project was subsequently approved in December 2009<sup>179</sup>; and
- five other 'low' risk-rated projects that had not been included on the list considered by Cabinet were subsequently approved by the responsible Minister for a total of \$1.43 million in Australian Government funding.<sup>180</sup>

## Withdrawal of approved funding

**3.46** Whilst 174 projects were approved in October 2009 for funding totalling \$37.87 million, funding offers for three of these projects were subsequently withdrawn prior to the funding agreement being signed (once it emerged that the projects had either been completed, or were substantially complete).<sup>181</sup>

**3.47** The first two withdrawals related to the two projects for which funding had been approved on 13 October 2009<sup>182</sup> to Brisbane City Council.<sup>183</sup> This was as a consequence of the local Federal member in respect to the location of one of these projects identifying in late October 2009 that one of the projects for

<sup>179</sup> See further at paragraph 3.50. This project was located in an electorate held by the Australian Labor Party.

<sup>180</sup> Four of these projects were located in NSW (two in electorates held by the Australian Labor Party, and two in electorates held by the Coalition), with the other project being located in the Northern Territory (in an electorate held by the Australian Labor Party).

<sup>181</sup> As noted at paragraph 2.10, the Jobs Fund guidelines stipulated that funding would not be provided retrospectively and that a proponent must not begin project activities dependent on the Jobs Fund funding before a funding agreement had been signed.

<sup>182</sup> This approval date is the date reflected in the department's 17 November 2009 briefing to the responsible Minister recommending that the funding approval be withdrawn. The department was unable to provide ANAO with copies of the project assessments signed by the Minister as approving each of these two projects. In this respect, Regulation 12 requires that an approver of a spending proposal record the terms of the approval in writing, either at the time of giving the approval or as soon as practicable thereafter.

<sup>183</sup> Six applications from Brisbane City Council had been allocated to the bike paths component for assessment.

which funding was about to be announced had been substantially completed. After investigating, on 17 November 2009, the responsible department advised its Minister that one project was ‘approximately 95 per cent completed’ and that the published guidelines did not permit retrospective funding of projects, and that the other project had commenced. Accordingly, the department recommended that the Minister agree that the department not proceed to negotiate and sign funding agreements for either project. The department also provided the Minister with a list of all projects that had not been previously awarded funding, and asked that he:

advise of any additional projects you select to fund (up to \$1.423 million<sup>184</sup> in total), and the amounts funded and any risk treatment or conditions imposed by you.

**3.48** The list provided by the department was sorted by state, with projects categorised within each state according to whether the department had assessed them as meeting all criteria, or as not meeting one or more criteria. Consistent with its practice in relation to the main funding round, the department did not rank the listed projects, or otherwise make a recommendation as to which projects it considered were most meritorious of being funded. It also did not recommend that the Minister not approve funding for those projects identified as not meeting one or more criteria.

**3.49** On 10 December 2009, the Minister agreed with the department’s recommendation that the department not proceed to negotiate funding agreements for either of the two Brisbane City Council projects.

**3.50** In a further briefing to its Minister of 15 December 2009, the department outlined that it understood that the Minister wished to consider approving funding to Adelaide City Council for the Adelaide Park Lands Trail Stage 5 project.<sup>185</sup> That application had sought \$1.5 million towards a project with a total estimated cost of \$3.869 million. The department advised the Minister that ‘informal advice’ from the council had indicated that one component of the project had been completed, with the value of the ‘residual project’ being \$2.694 million. The proposed Australian Government

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<sup>184</sup> The department advised the Minister that, if he agreed not to proceed with funding either of the two Brisbane City Council projects, there would be \$1 423 344 in program funds available should he wish to consider approving additional projects.

<sup>185</sup> This project was the one removed from the list of projects the responsible Minister had advised his Cabinet colleagues that he had intended to approve. See further at paragraph 3.45.



contribution to this was \$967 000. Funding of this amount was approved by the responsible Minister on 16 December 2009. The basis on which the Minister had determined that this project should be approved with the funding that had become available, rather than any of the other remaining un-approved projects, was not recorded.

**3.51** The third project for which the funding offer was withdrawn prior to a funding agreement being signed was the McKimmies Road Shared Pathway, for which \$165 750 had been awarded to City of Whittlesea in Victoria towards the \$326 500 estimated cost of work. On 10 December 2009, the responsible Minister agreed to his department's 25 November 2009 recommendation that he withdraw the funding offer for this project due to the project having been already completed.<sup>186</sup>

## Conclusion

**3.52** Of the 255 applications assessed for possible funding from the \$37.9 million available under the bike paths component of the Jobs Fund, there were 99 seeking \$40.67 million that, based on the results of the department's assessment work:

- were located in a Priority Employment Area (and therefore clearly met the unemployment gateway criterion), as well as meeting each of the other seven criteria derived by the department from the guidelines;
- also met the expectation outlined in the guidelines for partner funding of at least 50 per cent of the project budget;
- had no identified implementation risks, or the identified risks were considered to be acceptable and able to be managed through the funding agreement; and
- would create or retain at least one job, work experience position or traineeship in a Priority Employment Area.

**3.53** However, the process applied to selecting the successful applications did not focus attention on projects with these characteristics, with 21 of those 99 projects not being approved. By way of comparison, nearly a third of approved projects (32 per cent, 56 projects) had been assessed as not meeting at

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<sup>186</sup> In its advice to the Minister, the department noted that funding agreement negotiations were continuing in relation to the two other projects for which funding had been awarded to Whittlesea City Council.

least one of the eight criteria derived from the guidelines by the department and/or had not met the expectation outlined in the guidelines for partner funding of at least 50 per cent of the project budget.

**3.54** Overall, the way in which assessment advice was provided to the responsible Minister and the process through which applications were selected for approval was inconsistent with key aspects of the grants administration framework. In particular:

- the Minister was not provided with departmental advice as to which applications were recommended for approval, and those that the department recommended should be rejected. In addition to denying Ministers the benefits of comprehensive agency advice, this approach negates the operation of important aspects of the grants administration framework<sup>187</sup>;
- the requirement under the FMA Regulations for the basis of decisions to award grants to be recorded was not met; and
- the iterative process adopted to select the successful applications was inconsistent with the published program guidelines.<sup>188</sup> Under that process, the outcome of the departmental risk assessment was adopted as the primary determinant of the projects to be awarded funding<sup>189</sup>, rather than the selection process being based on a comparative assessment of the merits of the competing, compliant applications in meeting the program criteria and objectives in order to identify the most meritorious projects. As a result, more than one quarter of the applications that were approved had been assessed as not meeting the

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<sup>187</sup> In particular, the CGGs require that Ministers report annually to the Finance Minister on all instances where they have decided to approve a grant that the agency recommended be rejected. The absence of any agency recommendation about which proposed grants are recommended for approval, and those the agency recommends be rejected, means there is no basis to identify any instances of a decision-maker disagreeing with the agency advice. The absence of agency funding recommendations also makes it more difficult for decision-makers to identify those instances in which it will be necessary for them to document the basis for any decision to approve the grant (FMA Regulation 12 requires that the basis for any decision to approve a grant be documented).

<sup>188</sup> FMA Regulation 9 prohibits an approver from approving a spending proposal unless satisfied, after undertaking reasonable inquiries, that giving effect to the proposal would be an efficient, effective, economical and ethical use that is not inconsistent with the policies of the Commonwealth. The CGGs state that the guidelines applying to a grants program are one of the policies of the Commonwealth for the purposes of FMA Regulation 9.

<sup>189</sup> See further at paragraphs 2.100 to 2.101 and paragraphs 3.23 to 3.24.

mandatory unemployment gateway criterion. This was the case notwithstanding that:

- the published Jobs Fund guidelines had not provided any scope to waive any of the gateway criteria<sup>190</sup>; and
- the interim *Keep Australia Working* report released three months prior to bike paths funding decisions being made had reiterated that the Priority Employment Areas were those areas with the greatest need for direct assistance and that, in future, Jobs Fund funds should be targeted to those areas.

**3.55** These failings are similar to those evident as a result of an earlier audit of another competitive, applications-based grant program also conducted by the department in calendar 2009 (the first round of the Strategic Projects component of the RLCIP program). Departmental advice in respect to the bike paths component of the Jobs Fund had been provided to the responsible Minister prior to the findings of ANAO's audit of the first round of the Strategic Projects component being communicated to the department. In response to that audit report, the department indicated to ANAO that it now had a better appreciation of its obligations under the enhanced grants administration framework, and that procedures would be implemented to provide a clear agency recommendation to the Minister concerning whether or not funding should be approved in respect to each application to competitive, merits-based grants programs it administers.<sup>191</sup> In this context:

- ANAO is currently undertaking an audit of the conduct of the first round of the Regional Development Australia Fund administered by Regional Australia, including the processes by which applications were assessed; recommendations made to the responsible Minister; and successful projects approved for funding. That audit will provide an opportunity to gauge the extent to which lessons have been learned by Regional Australia in respect to providing assessment advice and funding recommendations to decision-makers in a manner that is consistent with the grants administration framework; and

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<sup>190</sup> By way of comparison, for the general component of the first round of the Local Jobs stream and the first round of the Get Communities Working stream, DEEWR gave initial priority to projects with high job creation/retention located in Priority Employment Areas and the Victorian Bushfire region.

<sup>191</sup> *ibid.*, p. 22.

- broader ANAO audit activity, through two audits examining the implementation of key aspects of the enhanced grants administration framework, has shown that it has been relatively common for agencies to not clearly identify in their advice to Ministerial decision-makers those proposed grants that the agency recommends be approved, and those that it recommends be rejected.<sup>192</sup> ANAO concluded that this, and related, findings showed that there was room for improvement on the part of agencies in respect to implementing the CGG requirements. ANAO also concluded that, without detracting from the clear responsibilities of individual agencies and consistent with the objectives underpinning the 2009 government decision to establish a dedicated grants framework unit within Finance, there would be benefits in Finance working collaboratively with agencies to assist them in implementing the grants administration framework, including in relation to more effectively meeting the obligation to advise Ministers on the merits of proposed grants.

## Distribution of funding

**3.56** Applications allocated to the bike paths component that were assessed by the responsible department came from every state and territory, but (as outlined in Table 3.1) predominantly from New South Wales, Victoria and South Australia (71 per cent of all applications). Approval rates for projects were broadly in line with the number of applications received from each state/territory, although the approval rate of nearly 86 per cent for projects located in South Australia was noticeably higher than the national average of some 69 per cent.<sup>193</sup> This was a consequence of a preference evident in the approval outcomes for smaller value grant requests compared with those applicants seeking a higher grant. In this respect:

- the average value of grant applied for was \$410 251, but the average value of the 175 grants approved was significantly (46 per cent) lower at \$221 928<sup>194</sup>;

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<sup>192</sup> See further in ANAO Audit Report No.21 2011–12, op. cit.

<sup>193</sup> Whilst all applications from the Northern Territory and Australian Capital Territory were approved, very few applications were received for projects located in either territory.

<sup>194</sup> The average value of the 80 grants applied for but not approved was \$824 589.

- all but one of the 37 applications seeking a grant of less than \$50 000 was approved, and 85 per cent of those applications seeking a grant of at least \$50 000, but less than \$100 000, was approved. By way of comparison, only nine (21 per cent) of the 42 applications that sought more than \$750 000 was approved; and
- applications seeking less than \$500 000 were nearly three times more likely to be approved for funding than those seeking \$500 000 or more.<sup>195</sup>

**Table 3.1****Distribution of funding by State: applications and approved projects**

State/Territory	Applications submitted		Projects approved		
	Number	\$ applied for (m)	Number	Approval rate	\$ approved (m)
New South Wales	87	35.5	59	67.8%	14.4
Victoria	52	28.6	29	55.8%	6.0
South Australia	42	8.9	36	85.7%	4.0
Queensland	40	19.4	26	65.0%	7.7
Western Australia	22	6.9	16	72.7%	2.8
Tasmania	9	3.6	6	66.7%	2.2
Northern Territory	2	1.1	2	100.0%	1.1
Australian Capital Territory	1	0.6	1	100.0%	0.6
<b>Total</b>	<b>255</b>	<b>104.6</b>	<b>175</b>	<b>68.6%</b>	<b>38.8</b>

Source: ANAO analysis of Regional Australia data.

**3.57** The higher approval rate for projects located in South Australia compared with other states reflected the approach taken by the Department of Transport, Energy and Infrastructure (DTEI) which submitted a relatively large

<sup>195</sup> Of the 187 applications that sought a grant of less than \$500 000, 156 (83 per cent) were approved. By way of comparison, 19 (28 per cent) of the 68 applications that sought a grant of \$500 000 or more were approved for funding.

number of applications but, in the main, for relatively low value grants.<sup>196</sup> By way of comparison, the Roads and Traffic Authority of New South Wales submitted three applications seeking grants of \$1.5 million or \$2.0 million (two applications), none of which were successful. Similarly, VicRoads and the Victorian Department of Transport each submitted a single application for larger projects seeking grants of \$1.38 million and \$1.36 million respectively, neither of which was approved.

**3.58** The program guidelines had stated that funding for individual projects under the Local Jobs streams (including the bike paths component) would be determined on a case-by-case basis to a maximum of \$2 million per project. Neither the published guidelines nor any other information provided to potential applicants had indicated that the awarding of funding would favour applications seeking smaller grants over those seeking larger grants. Rather, the guidelines had advised that grants of up to \$2 million were available under the bike paths component, with funding for individual projects to be determined on a case-by-case basis.

## **Priority Employment Areas**

**3.59** As outlined at paragraph 3.15, the interim *Keep Australia Working* report released in July 2009 had reiterated that the Priority Employment Areas were those areas with the greatest need for direct assistance and that, in future, Jobs Fund funds should be targeted to those areas. Regional Australia's assessment advice to the responsible Minister was provided two months later, with most funding decisions being made in October 2009, some three months after the *Keep Australia Working* report was released. In this context, Table 3.2 examines the distribution of bike paths component funding by Priority Employment Area. It highlights the comparatively high number of applications submitted in respect to the Northern and Western Adelaide Priority Employment Area, and the high proportion of these projects that were approved for funding—see further at paragraph 3.57.

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<sup>196</sup> DTEI submitted 29 applications that were allocated to the bike paths component for assessment. Of these, 28 were approved (for grants ranging from \$10 500 to \$350 000, and an average of \$46 219), with the most common type of work involving the installation of bike lanes on existing roads. The only application from the DTEI that was not approved was the one that sought a grant of \$1.07 million to construct an all-weather sealed shared use path through a disused rail corridor between the towns of Oakbank and Charleston (via Woodside).

**Table 3.2****Distribution of funding by Priority Employment Area**

Priority Employment Area	Applications submitted		Projects approved		
	Number	\$m	Number	Approval rate	\$m
Ballarat-Bendigo (Vic)	4	1.18	1	25.0%	0.10
Bundaberg-Hervey Bay (Qld)	1	0.98	1	100.0%	0.98
Caboolture-Sunshine Coast (Qld)	3	0.96	2	66.7%	0.48
Cairns (Qld)	2	0.78	2	100.0%	0.78
Canterbury-Bankstown & South Western Sydney (NSW)	13	5.68	8	61.5%	0.97
Central Coast-Hunter (NSW)	13	5.21	8	61.5%	2.81
Illawarra (NSW)	8	3.70	7	87.5%	1.94
Ipswich-Logan (Qld)	5	5.09	1	20.0%	0.20
Mid North Coast (NSW)	2	0.50	2	100.0%	0.49
North Eastern Victoria (Vic)	3	0.35	2	66.7%	0.18
North West/Northern Tasmania (Tas)	4	1.92	4	100.0%	1.92
North Western Melbourne (Vic)	12	9.06	5	41.7%	1.38
Northern and Western Adelaide (SA)	26	4.49	23	88.5%	2.00
Project covering 3 Victorian Areas (Vic)	1	1.38	0	0.0%	0.00
Port Augusta-Whyalla-Port Pirie (SA)	1	0.14	1	100.0%	0.14
Richmond-Tweed and Clarence Valley (NSW)	6	2.37	5	83.3%	1.57
South Eastern Melbourne (Vic)	6	5.08	2	33.3%	0.32
South West Perth (WA)	3	2.52	2	66.7%	0.74
Sydney West and Blue Mountains (NSW)	6	4.76	2	33.3%	0.62
<b>Total</b>	<b>119</b>	<b>56.15</b>	<b>78</b>	<b>65.5%</b>	<b>17.62</b>

Source: ANAO analysis of Regional Australia data.

**Electorate distribution**

**3.60** As outlined at paragraphs 3.23 to 3.43, the processes used to select the successful applications for bike paths component funding unnecessarily departed from the published program guidelines, particularly with respect to

ANAO Audit Report No.27 2011–12  
Establishment, Implementation and Administration of the Bike Paths  
Component of the Local Jobs Stream of the Jobs Fund.

the decision not to limit funding to only those applications that had been assessed as meeting the unemployment gateway criterion. In this context, when considering the distribution of funding in party political terms, it is relevant to note that, had the selection process focused on those projects located in Priority Employment Areas that been assessed by the responsible department as meeting the published program guidelines<sup>197</sup>, the distribution of funding would have predominantly favoured projects in electorates held by the Australian Labor Party. Specifically:

- 76 per cent of such projects were located in an electorate held by the Australian Labor Party, involving more than 81 per cent of funding being sought in respect to such projects;
- 22 per cent of these projects were located in an electorate held by the Coalition, involving over 18 per cent of funding being sought in respect to such projects; and
- two per cent of these projects were located in an electorate held by an Independent Member, involving a relatively small amount of funding being sought (less than half of one per cent of the total sought by projects in this cadre).

**3.61** In contrast, and as illustrated by Table 3.3, application and approval rates in respect to those projects that were selected for funding (26 per cent of which had been assessed as not meeting the unemployment gateway criterion) were broadly consistent with the proportion of electorates held by the major parties and Independent members. Further in this respect, projects located in electorates held by the Coalition and Independent Members were approved at a higher rate than those located in an electorate held by the Government. In addition, the average value of grants sought in respect to projects located in an electorate held by the Australian Labor Party was higher than that applied for in respect to projects located in electorates held by either the Coalition or Independent Members, and this was similarly reflected in the proportion of funding awarded.

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<sup>197</sup> That is, they were assessed as: being located in a Priority Employment Area (and therefore meeting the unemployment gateway criterion) as well as meeting each of the other seven criteria derived by the department from the guidelines; meeting the expectation outlined in the guidelines for partner funding of at least 50 per cent of the project budget; had no identified risks or the identified risks were considered acceptable and able to be managed through the funding agreement; and would create or retain at least one job (including work experience positions and traineeships) in a Priority Employment Area.



**Table 3.3****Application approvals by political party**

Party holding the electorate in which the project was located	Electorates held %	Applications <sup>1</sup>		Projects approved <sup>1</sup>		
		# (%)	\$m (%)	# (%) <sup>2</sup>	Approval rate %	\$m (%) <sup>2</sup>
Australian Labor Party	55.0%	154 (59%)	72.6 (68%)	100 (55%)	64.9%	26.3 (64%)
Coalition	43.0%	97 (37%)	31.7 (30%)	73 (40%)	75.3%	13.3 (32%)
Independent Member	2.0%	10 (4%)	2.3 (2%)	8 (4%)	80.0%	1.4 (3%)
<b>Total</b>	<b>100%</b>	<b>261 (100%)</b>	<b>106.6 (100%)</b>	<b>181 (100%)</b>	<b>69.3%</b>	<b>41.0 (100%)</b>
Notes:						
1. The total number and value of applications submitted and projects approved is greater than those actually received and approved due to a number of projects being located in more than one electorate (sometimes in at least one electorate held by the Australian Labor Party and at least one electorate held by the Coalition or an electorate held by an Independent Member).						
2. Difference due to rounding.						

Source: ANAO analysis of Regional Australia and Australian Electoral Commission data.

**3.62** The overall analysis of electorate distribution is significantly influenced by all 146 projects assessed by the department as having no identified risks, or an overall risk rating of 'very low', being approved on that basis. A further 29 projects were approved for funding through a more discretionary approach of selecting from among the 96 projects that had been allocated an overall risk rating of 'low' (and where the department had assessed that seven of the eight criteria derived from the published guidelines had been met—as outlined at paragraph 3.24, applications assessed as not meeting the unemployment gateway criterion were nevertheless considered for funding). This approach was recorded as being aimed at providing a 'balance of investment across jurisdictions', although the factors considered in selecting 29 of these projects ahead of the other 67 like-rated projects was not documented. As illustrated by Table 3.4, there was no noticeable bias evident in the electorate distribution of projects selected through this process.

**Table 3.4****Application approvals by political party: 'low risk' applications selected so as to provide a balance of investment across jurisdictions**

Party holding the electorate in which the project was located	Applications rated as 'low risk' <sup>1</sup>		Projects approved <sup>1</sup>		
	# (%)	\$m (%) <sup>2</sup>	#	Approval rate %	\$m (%)
Australian Labor Party	69 (70%)	50.8 (74%)	22 (76%)	31.9%	12.7 (83%)
Coalition	27 (28%)	16.6 (24%)	7 (24%)	25.9%	2.6 (17%)
Independent Member	2 (2%)	0.9 (1%)	0 (0%)	0.0%	0.0 (0%)
<b>Total</b>	<b>98 (100%)</b>	<b>68.3 (100%)</b>	<b>29 (100%)</b>	<b>29.6%</b>	<b>15.3 (100%)</b>
Notes:					
1. The total number and value of applications submitted and projects approved is greater than those actually received and approved due to a number of projects being located in more than one electorate (sometimes in at least one electorate held by the Australian Labor Party and at least one electorate held by the Coalition or an electorate held by an Independent Member.					
2. Difference due to rounding.					

Source: ANAO analysis of Regional Australia and Australian Electoral Commission data.

## Conclusion

**3.63** Approval rates for bike path component projects were broadly in line with the number of applications received from each state and territory, although the approval rate of nearly 86 per cent for projects located in South Australia was noticeably higher than the national average of some 69 per cent.<sup>198</sup> This was a consequence of a preference evident in the approval outcomes for smaller value grant requests compared with those applicants seeking a higher grant.<sup>199</sup>

**3.64** Overall, the distribution of funding was largely consistent with the proportion of electorates held by the major parties and Independent members. Nevertheless, as noted, the approach taken was inconsistent with the

<sup>198</sup> Whilst all applications from the Northern Territory and Australian Capital Territory were approved, very few applications were received for projects located in either territory.

<sup>199</sup> The preference for approving a larger number of smaller value grants disadvantaged those applicants that had sought larger value grants. Neither the published guidelines nor any other information provided to potential applicants had indicated that the awarding of funding would favour applications seeking smaller grants over those seeking larger grants. Rather, the guidelines had advised that grants of up to \$2 million were available under the bike paths component, with funding for individual projects to be determined on a case-by-case basis.

published guidelines and stated program objectives which intended that funding be focused on projects that would provide economic stimulus where it was needed, rather than allocating funding in accordance with political representation in the House of Representatives. In this respect, had the selection process for the bike paths component focused on those projects located in Priority Employment Areas that been assessed by the responsible department as meeting the published program guidelines, the distribution of funding would have predominantly favoured projects in electorates held by the Australian Labor Party.<sup>200</sup> This would have been an unsurprising result given the location of the Priority Employment Areas<sup>201</sup>, and the characteristics of the applications allocated to the bike paths component for assessment.

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<sup>200</sup> Specifically, 76 per cent of such projects were located in an electorate held by the Australian Labor Party, involving more than 81 per cent of funding being sought in respect to such projects.

<sup>201</sup> The 20 Priority Employment Areas had been identified by DEEWR from analysis of 25 labour market indicators. Those 20 Areas encapsulated all or part of the area of 80 of the 150 Federal electorates, of which 52 (65 per cent) were held by the Australian Labor Party. See further in ANAO Audit Report No.7 2011–12, op. cit., pp 58–62.

## 4. Program outcomes

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*This chapter examines the administration of project oversight arrangements adopted for the bike paths component, with a focus on the extent to which the program has demonstrably delivered economic stimulus outcomes.*

### Project oversight arrangements

**4.1** The guidelines for the Jobs Fund outlined that, for approved projects, the relevant Australian Government department and the project proponent would agree to the terms and conditions for the project by entering into a legally enforceable funding agreement.

**4.2** As noted in Table 2.1, 174 projects were initially approved in October 2009 for \$37.87 million in bike paths component funding. However, approval for three of these projects was withdrawn prior to the relevant funding agreement being signed (once it emerged that these projects had either been completed, or were substantially complete). A further project was then approved in December 2009 for partial funding of \$967 000 using the program funding that had become available.<sup>202</sup>

**4.3** However, funding agreements were also not ultimately executed for a further five approved projects, as follows:

- in February 2010, the responsible Minister agreed to a departmental recommendation that he agree to reallocate the funding of \$48 750 approved for one approved project (the City of South Perth's Sir James Mitchell Park Cycle Path Refurbishment), to a related project by the same proponent which had also been approved for funding of \$297 913 in October 2009 (the Sir James Mitchell Park New Cycle Path project). The proponent had requested that the funding previously approved for the Cycle Path Refurbishment project be transferred to the latter project as it had been increased in scope following the selection of a different alignment to that identified in the approved application. As a result, the

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<sup>202</sup> As discussed at paragraph 3.50, that project was approved for partial funding after it was determined that elements of the project originally submitted had already been completed.

project to refurbish the existing path did not proceed to having a funding agreement signed<sup>203</sup>;

- following a change in council priorities, Wollondilly Shire Council decided that, unless the funding approved for its application for a shared cycleway project on Bridge Street in Thirlmere could be transferred to a different project, it would not accept the funding offer. In February 2010, the responsible Minister accepted the department's recommendation that this transfer not be agreed to and funding was withdrawn;
- in December 2009, the South Australian DTEI advised that it was no longer able to commence work to construct a new bicycle lane on Churchill Road before the end of 2009–10, and so this approved project was withdrawn from the program by the proponent; and
- in April 2010, the responsible Minister agreed to a departmental recommendation that he withdraw approval for two applications lodged by the City of Joondalup in Western Australia after council advised that the relevant works would not commence before 30 June 2010.<sup>204</sup>

**4.4** As a result, funding agreements were signed in respect to 167 approved projects involving aggregate program funding of \$36.9 million (97 per cent of the stimulus funding quarantined for bike path construction projects).

## **Timeliness of funding agreement execution**

**4.5** Expeditionary departmental processes to develop and sign funding agreements assist infrastructure projects being funded under an economic stimulus program to commence and proceed in a timely manner.<sup>205</sup> This is particularly the case given the nature of such projects and, for the Jobs Fund,

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<sup>203</sup> In recommending that its Minister agree to the requested transfer of funding, the responsible department had advised that: 'The Council also considers that the refurbishment work required under (*the path refurbishment project*) can be achieved through other means and is considering other options to rectify the problems without the significant construction works originally proposed.' The department's February 2010 brief further advised the Minister that the works proposed under the revised New Cycle Path project could be completed by 30 June 2010 (the cut-off for eligibility under the bike paths component). The funding agreement for the New Cycle Path project was executed on 25 March 2010, but was later varied in June and September 2010 to extend the project timeframe following construction delays.

<sup>204</sup> See footnote 172.

<sup>205</sup> ANAO Audit Report No.3 2010–11, op. cit., pp. 207–208.

the fact that the guidelines stipulated that proponents were not to commence activities dependant on the program funding until the funding agreement was signed.

**4.6** Project approvals for all but one<sup>206</sup> of the successful applications to the bike paths component of the Local Jobs stream of the Jobs Fund occurred in October 2009. This was slightly later than funding decisions taken by the relevant Minister in respect to the 2009–10 round of the quarantined heritage component (these decisions were taken between 31 August 2009 and 18 September 2009). It was also later than the July and August 2009 funding decisions taken by a DEEWR departmental delegate in respect to the first round of the general component of the Local Jobs stream (which had a two year program delivery timeframe, compared to the one year allowed for both the quarantined heritage and bike paths components). Against this background, with less than nine months remaining before the program end date of 30 June 2010, it was important that the responsible department adopted timely and effective processes for the development and signing of funding agreements in respect to approved bike paths component applications.

**4.7** For none of the approved projects did the department's assessment advice to the responsible Minister indicate that there were any difficulties expected with the timely finalisation of a funding agreement. Specifically, for each of the approved projects, the project summary provided to the Minister had stated that:

- funding would be spent by 30 June 2010; and
- any identified risks of delay in project delivery could be managed, with no project being allocated a project viability and readiness risk rating of other than 'low' or 'very low'.

**4.8** The first bike paths component funding agreement was signed on 19 November 2009, and funding agreements in relation to a further 23 projects were signed during December 2009. However, this meant that, by the end of calendar 2009, there remained 143 projects for which a funding agreement had not yet been signed for an economic stimulus program under which construction work was required to be completed by 30 June 2010 and, as noted,

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<sup>206</sup> See further at paragraph 3.50.

proponents were not to commence activities dependant on program funding until the funding agreement was signed.

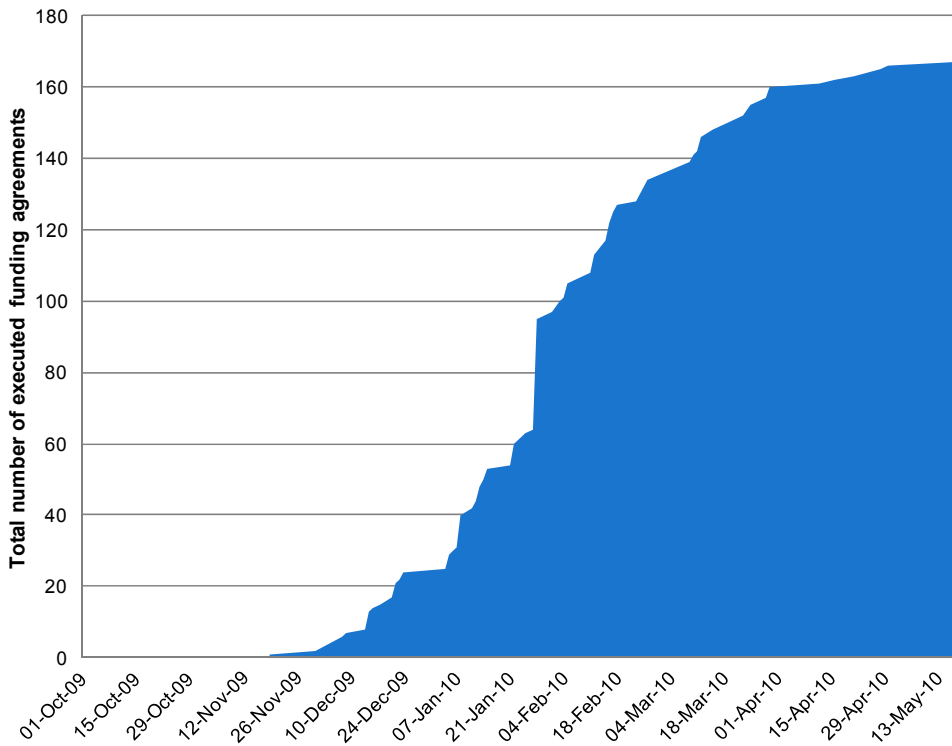
**4.9** One factor contributing to these delays was that the responsible department had to seek additional project-specific information from the proponents of various projects.<sup>207</sup> Figure 4.1 illustrates the period over which funding agreements were signed for the relevant 167 approved bike paths component projects, with 1 October 2009 being the first date on which the responsible Minister had approved an application.

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<sup>207</sup> Paragraphs 2.64 to 2.68 outline how insufficient project information was obtained from proponents through the application and assessment process. In this respect, ANAO's Better Practice Guide notes that: 'It is reasonable to expect that the extent of information obtained from applicants will be such that, should funding be approved, a funding agreement will be able to be drafted without seeking further information, with the funding recipient then being asked to comment on the draft agreement. This is particularly the case where, as is commonly the case, a standard funding agreement is used. Particularly for project-based grants, completing the agreement following funding approval typically involves populating the relevant schedules with details of the project to be delivered (including scope, budget, funding contributions, timelines and milestone requirements, and required outputs and outcomes). If these matters are not able to be derived from the material on which the grant approval was based, the quality of the assessment in terms of appropriately informing decision-making under the program guidelines, the financial framework and the grants policy framework will fall into question.' (ANAO Better Practice Guide, op. cit., p. 50.)

**Figure 4.1**

**Cumulative number of projects for which a funding agreement was signed**



Source: ANAO analysis of Regional Australia data.

**4.10** For at least<sup>208</sup> 65 of the 143 projects (45 per cent) for which a funding agreement was not signed before the end of calendar 2009, a draft funding agreement had also not been prepared and sent to the proponent before the end of calendar 2009. Furthermore, draft funding agreements were still being finalised and sent to project proponents as late as April 2010. More broadly, on average it took the department:

- 12 weeks (nearly one quarter of the total twelve month window available for the program to be delivered) from the date of the responsible Minister’s approval of a project to send a draft funding agreement to the project proponent for its consideration; and

<sup>208</sup> In some instances, departmental records did not include details of when the first draft of the funding agreement had been sent to the project proponent.



- a further four and a half weeks to finalise and sign the funding agreement.

**4.11** The last funding agreement was signed on 17 May 2010, less than six weeks before the program end date, and almost one year after applications to the first round of the Jobs Fund had closed. That project had been approved by the responsible Minister on 14 October 2009. In announcing funding for that project in October 2009, the Minister had noted that it was part of a key element of the Government's economic stimulus plan.

### **Specifying project completion dates**

**4.12** It is reasonable to expect that bike paths component funding agreements would have been prepared on the basis that project proponents would commence work as soon as their respective funding agreement had been signed, and that the relevant project would proceed in accordance with the project duration period (i.e. expected elapsed time to complete the project) that had been outlined in the approved application. The application of those parameters would have necessarily resulted in the funding agreements prepared for 72 per cent of approved bike path projects specifying a completion date after the program end date of 30 June 2010.

**4.13** However, the executed funding agreements for only 26 projects (16 per cent) specified a completion date after 30 June 2010. This situation was the result of the department, through the development and signing of funding agreements, asking proponents to agree to a project completion date on or before the program end date of 30 June 2010. This approach was taken irrespective of the practicalities of the relevant works actually being completed by the date specified in the funding agreement. In this respect, ANAO analysis in respect to the contracted projects was that, on average:

- proponents estimated in their application that the project duration would be some 38 weeks; and
- the funding agreements prepared by the department were based on a project duration of some nineteen weeks, or half the average project duration outlined in the approved applications.

**4.14** The approach taken by the department provided a (misleading) impression that the substantial majority of contracted projects were likely to be delivered on or before the program end date of 30 June 2010. However, as the program proceeded, delays in project delivery soon became apparent.

**4.15** In total, 86 projects (51 per cent) were reported to the department as having been completed by 30 June 2010. This meant that nearly half of the 167 contracted projects had not been reported as having been delivered by 30 June 2010.<sup>209</sup> Overall, more than 80 per cent of contracted projects were not completed by the original contracted completion date.

**4.16** Another impact of the approach taken by the department to specifying contrived completion dates in the funding agreements involved the need for resources to be allocated to negotiating and signing funding agreement variations for a significant number of projects. Numerous projects were subject to variation during their respective project periods. In this respect, by late 2010 nearly half of all contracted projects had been the subject of at least one funding agreement variation (one project had been the subject of four variations by this time, with 45 other projects having had two or three funding agreement variations). The most common reason for a funding agreement variation related to delays with progressing the relevant project.

**4.17** Of the 81 contracted projects not completed by the program end date of 30 June 2010, a further 28 (17 per cent of the total number of contracted projects) were reported as having been completed by the end of September 2010. However, a number of projects were not reported to the responsible department as having been completed until the last six months of the 2010–11 financial year. In addition, two projects had not proceeded sufficiently to enable the final grant payments to be made before 30 June 2011.

## **Conclusion**

**4.18** Most (95 per cent) of the projects approved for bike path component funding proceeded to have a funding agreement signed. In total, the funding agreements involved the provision of more than \$36.9 million in economic stimulus funding (97 per cent of the total program funding that was available). At the time they were signed, the funding agreements outlined that this funding would be paid principally (93 per cent) within the one year program window of 2009–10 (on which funding eligibility under the program guidelines had been based), with the remaining funds being scheduled for payment no later than November 2010.

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<sup>209</sup> The figure of 86 projects completed by 30 June 2010 was also substantially (38 per cent) less than the 138 projects the department's 3 June 2010 program status report had advised the responsible Minister were expected to be completed by 30 June 2010.

**4.19** While contributing to the construction, extension or refurbishment of off-road bike paths, on-road bike lanes and bicycle parking facilities in numerous locations across the country, the bike paths component has not provided the planned level of stimulus in the timeframe that had been budgeted. In particular:

- reflecting the significant delays that occurred between applications being lodged in May 2009 and funding decisions being made (largely in October 2009), and subsequent further delays in funding agreements being signed<sup>210</sup> (between December 2009 and May 2010), no payments for bike path construction work were made in the first six months of the 12 month program window (1 July 2009 to 31 December 2009);
- whilst program payments increased significantly in the last quarter of 2009–10, more than a third (38 per cent) of the \$37.9 million in stimulus funding that had been made available for the construction of bike path projects had not been paid to project proponents by 30 June 2010; and
- a significant proportion of the remaining contracted funding was not paid to proponents until the second half of fiscal 2010–11 (up to 12 months after the scheduled program end-date of 30 June 2010), with the last program payments not expected to be made until April 2012.

## Payment and expenditure of economic stimulus funding

**4.20** The criterion adopted by the Government for the design of the stimulus packages established in response to the global financial crisis was that they be timely, targeted and temporary.<sup>211</sup> Under the Jobs Fund:

- projects were required to be ‘ready to start’ (sometimes referred to as ‘shovel ready’) in order to be eligible to be considered for funding;
- funded projects were required to be in an area experiencing high unemployment, a significant rise in unemployment or unemployment vulnerability. To this end, by July 2009 the Government had agreed to 20 Priority Employment Areas, being those regions with labour

<sup>210</sup> The program guidelines stipulated that proponents were not to commence activities dependant on the program funding until the funding agreement was signed.

<sup>211</sup> House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government, *The Global Financial Crisis and regional Australia*, November 2009, p. 55.

markets that had been identified as likely to experience disadvantage and deterioration as a result of the global recession; and

- a defined program window had been agreed by government, with funding available over a maximum of one year (from 1 July 2009 to 30 June 2010) for the bike paths component. Accordingly, the 2009–10 Budget provided that all \$37.9 million of the funding made available for the construction of bike paths would be paid to project proponents in 2009–10.

**4.21** As noted at paragraph 4.4, the funding agreements ultimately executed provided for a total of 97 per cent (or \$36.9 million) of the stimulus funding quarantined for bike path construction projects to be paid to project proponents. Had projects proceeded in accordance with the funding agreements that had been signed, by 30 June 2010 more than 93 per cent of the contracted funding (representing more than 90 per cent of the available program funding) was contracted to be paid to project proponents.

**4.22** While contributing to the construction, extension or refurbishment of off-road bike paths, on-road bike lanes and bicycle parking facilities in numerous locations across the country, the bike paths component has not provided the planned level of stimulus in the timeframe that had been budgeted. In particular, by the end of March 2010 (nine months into the twelve month program window) less than \$2.8 million had been paid to project proponents (7.6 per cent of total contracted payments). As bike paths component funding agreements generally provided for an initial payment to the relevant proponent of at least 25 per cent of the approved funding, this situation largely reflects the significant delays that occurred in funding agreements being entered into with project proponents (see further at paragraphs 4.8 to 4.11).

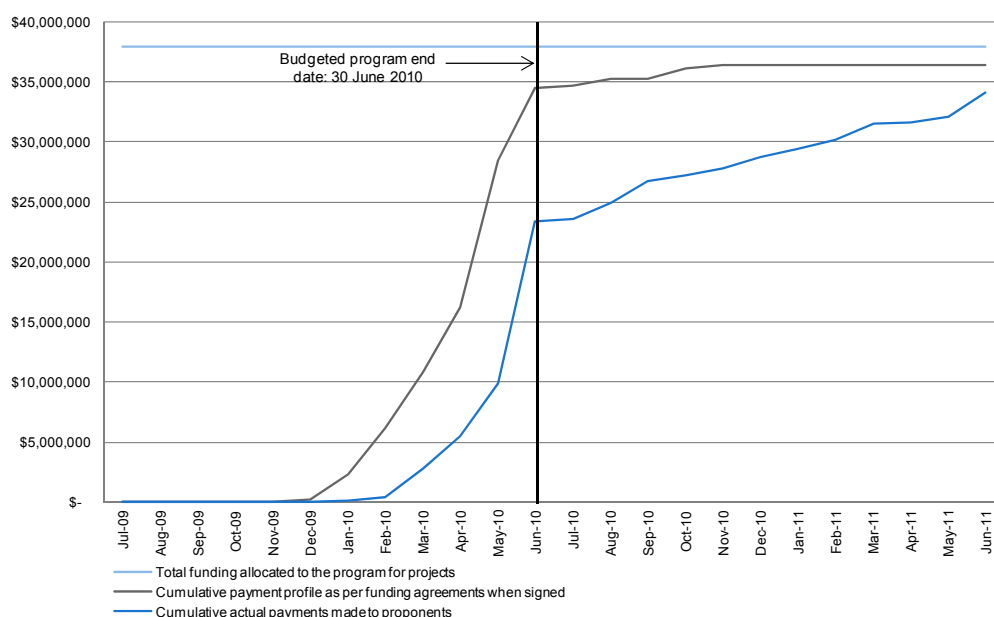
**4.23** As illustrated by Figure 4.2, expenditure increased significantly in April and May 2010 (\$2.7 million and \$2.4 million in total payments respectively). Nevertheless, by the end of May 2010, total funding paid to project proponents was 65 per cent less than that which had been contracted to be paid by that date (and 73 per cent less than the total contracted amount). Figure 4.2 also illustrates the impact of the substantial efforts made by the responsible department to increase program payments over the course of June 2010, prior to the program end date of 30 June 2010. As a result of these efforts, in June 2010 nearly \$13.5 million (37 per cent of the total amount contracted to be paid over the life of the program) was paid to project proponents, increasing total

program payments to some \$23.4 million. Nevertheless, as at 30 June 2010, program payments remained:

- 32 per cent below those originally contracted to have been paid by the end of the program<sup>212</sup>; and
- 37 per cent below the total amount that had originally been contracted to be paid over the life of the program.

**Figure 4.2**

**Program funding, cumulative contracted payments and cumulative actual program expenditure as at June 2011**



Source: ANAO analysis of Regional Australia data.

**4.24** The increase in project payments made across April, May and June 2010 was not reflective of a sustained late increase in actual construction activity being achieved in relation to funded projects.<sup>213</sup> This is reflected in the fact that, by the end of calendar 2010, total program payments were still 21 per cent less

<sup>212</sup> In addition to delays in project expenditure, the amount of funding contracted to be paid reduced over time (due to factors such as projects not proceeding to construction, scope variations and final project costs being less than those budgeted).

<sup>213</sup> For example, compared with the \$20.6 million paid in the last three months of 2009–10, less than \$3.4 million was paid in the first quarter of 2010–11, and a further \$2 million was paid in the second quarter of 2010–11. Monthly payments between January and May 2011 averaged \$650 000.

than the amount that had originally been contracted to have been paid by that date, primarily due to projects failing to achieve construction milestones set out in the funding agreement.

**4.25** Nearing the end of 2010–11, renewed efforts were made by the responsible department to finalise the payment of funding for those contracted projects that had yet to be reported as completed. As a result, more than \$2 million was paid to project proponents in June 2011, the largest monthly payment figure since June 2010 (the original program end date). This brought total program expenditure on funded projects to \$34.1 million, with Regional Australia advising ANAO in January 2012 that it expects to make the final two project payments in April 2012. However, due to cost savings and terminations in respect to some projects, final program expenditure will be less than the \$36.9 million that was contracted.<sup>214</sup>

## Employment outcomes

**4.26** As noted in paragraphs 1.6 and 2.20, the primary objective of each stream of the Jobs Fund was the support and creation, through the delivery of funded projects, of jobs and employment opportunities in communities affected by the global recession and for disadvantaged job seekers. The lead agency for the Jobs Fund (DEEWR) has advised ANAO that it was imperative that the program fund projects that could commence quickly in order to create and retain jobs as soon as possible. This was reflected in the published program guidelines stipulating that only projects that were viable and ready to start would be eligible for funding.

**4.27** In this respect, in seeking funding, the applications submitted for the 167 projects that were ultimately approved and contracted to receive bike paths component funding had indicated that, in aggregate, these projects would create or result in the retention of more than 1 130 short-term jobs<sup>215</sup> and nearly 550 long-term jobs<sup>216</sup>, as well as more than 80 work experience positions

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<sup>214</sup> For example, in June 2011 the responsible Minister agreed to a recommendation from his department that action be commenced to terminate the funding agreement with the City of Sydney for the remaining \$1.137 million in grant funding approved for the Accelerated Cycleway Implementation project. That project had been approved for \$1.79 million in bike paths component funding (the second largest grant awarded) and had been contracted for delivery in six stages, with the final stage to be completed in June 2010. However, whilst the first stage was officially opened in May 2010 and the associated \$652 960 in grant funding acquitted, the remaining works had not commenced by June 2011.

<sup>215</sup> That is, jobs lasting up to six months.

<sup>216</sup> That is, jobs lasting longer than six months.

and nearly 90 traineeships.<sup>217</sup> As indicated in Table 4.1, nearly half of all short-term and long-term jobs, more than half of the work experience positions and nearly one-third of the traineeships were expected to be created or retained in a Priority Employment Area.

**Table 4.1**

**Contracted projects' employment outcomes as outlined in applications and reflected in project assessments provided to the responsible Minister**

Outcome of project assessment against Gateway Criterion 1	Employment outcomes claimed in application			
	Short-term jobs (%)	Long-term jobs (%)	Work experience positions (%)	Traineeships (%)
Located in a Priority Employment Area	551 (48%)	256 (47%)	48 (58%)	28 (32%)
Not located in a Priority Employment Area, but is in a region identified in the DEEWR Regional Matrix as below average or poor in terms of employment vulnerability	122 (11%)	66 (12%)	2 (2%)	12 (13%)
Assessed as being located in an area otherwise considered to be vulnerable to high unemployment	172 (15%)	104 (19%)	25 (30%)	33 (37%)
Unemployment gateway criterion not met	292 (26%)	122 (22%)	8 (10%)	16 (18%)
<b>Total</b>	<b>1 137 (100%)</b>	<b>548 (100%)</b>	<b>83 (100%)</b>	<b>89 (100%)</b>
Average per project	6.8	3.3	0.5	0.5

Source: ANAO analysis of Regional Australia data.

## Monitoring of actual employment outcomes

**4.28** Notwithstanding the importance of supporting jobs and employment opportunities to all streams and components of the Jobs Fund, the funding agreements used for the bike paths component did not make any reference to the claimed employment outcomes that had informed the decision to award

<sup>217</sup> As outlined at paragraph 2.55, the responsible department accepted at face value the employment claims made by the applicant in its application for funding, with no testing of the veracity of those claims being undertaken.

funding to the contracted projects. However, the funding agreements specified that progress and final reports provided by project proponents were to include information on the number of short-term and long-term jobs which had been created or maintained, together with supporting documentary evidence for the reported employment outcomes. No reporting was required under the funding agreement in respect to work experience positions or traineeships that were actually created or retained through the funded project, although the department's reporting template did seek this information.

**4.29** Compliance with the employment outcomes reporting requirements varied significantly amongst project proponents. Areas of non-compliance included that:

- it was relatively common for the reporting provided by proponents to fail to identify whether the reported employment outcomes related to the reported jobs having been created as a result of the project, or related to existing jobs that the project had caused to be retained;
- supporting documentation was often not provided with the progress reports and/or final report provided to the department<sup>218</sup>; and
- there were instances of project proponents not identifying whether the reported jobs were short-term or long-term.

**4.30** In addition, proponents used a variety of bases to calculate the jobs reported as having been created or retained through the relevant bike path project. However, the department had no processes in place to obtain data on a comparable basis across projects (such as, for example, a full-time equivalent measure of the various short and long-term jobs reported as having been created or retained throughout a project's duration).

**4.31** In relation to the employment outcomes that were reported by bike path project proponents, there were also significant variances evident when compared with those that had been foreshadowed in the application for funding. However, the department did not investigate any such discrepancies so as to be assured that the reporting could be relied upon. For example, by

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<sup>218</sup> This applied to the final report, or most recently received progress report at the time ANAO audit fieldwork was completed, for 153 of the 167 contracted projects (92 per cent). Setting aside those 35 projects where the funding recipient had not reported any jobs as having been created or retained through the funded bike path project, there were 120 projects (out of 132, representing 91 per cent) where supporting documentation for the reported employment outcomes was not provided to the department.



late 2010 (when ANAO audit fieldwork was completed, and nearly six months after the original program end-date of June 2010):

- in respect to 35 of the contracted projects, the relevant proponents had not reported that any short-term jobs, long-term jobs, work experience positions or traineeships had been created or retained as a result of the relevant projects. By way of comparison, the applications submitted in respect to these projects had outlined that, in total, they would result in the creation or retention of 195 short-term jobs, 173 long-term, 19 work experience positions and 30 traineeships; and
- for a further 36 projects, the proponent had reported actual achieved employment outcomes that were less than half those outlined in the application for funding.

**4.32** There were also 34 projects where the proponent reported employment outcomes that were significantly greater (at least double<sup>219</sup>) than had been outlined in the application. Departmental procedures did not include taking any action to investigate the veracity of the claimed outcomes, noting that in respect to 28 of the 34 projects, the proponent had not provided any supporting documentation in respect to the claimed employment outcomes.

**4.33** In the above circumstances, there is no reliable data available on actual employment outcomes achieved through projects funded under the bike paths component.

## Conclusion

**4.34** Although the three principal streams of the Jobs Fund each had their own particular focus, in each case the primary objective was the support and creation, through the delivery of funded projects, of jobs and employment opportunities in communities affected by the global recession and for disadvantaged job seekers. Applications submitted to the first round of the

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<sup>219</sup> For example, Byron Shire Council in Northern New South Wales had been awarded a \$168 500 grant towards the estimated \$370 700 cost of constructing an asphalt shared path (for pedestrians and cyclists) approximately 750 metres long and 2.5 metres wide. The application had stated that this work would create two short-term jobs and two work experience positions. The final report of June 2010 stated that 53 short-term jobs had been created on a 'part-time employment' basis with the report providing the following further advice in respect to this number: 'Thirty (30) Council employees were involved on the project at some stage and are on 'wage'; payment of which is made on the basis of hours committed to the project. Hours and numbers of personnel varied weekly and recorded on timesheets. As for the 23 contractors engaged directly due to the project, they receive payment upon receipt of invoice for the provision of required materials and/or services to complete the project.'

Local Jobs stream of the Jobs Fund, including those allocated to the bike paths component for assessment, were required to outline the number of jobs the applicant claimed the project would create or cause to be retained, either in the short or long-term. In the case of the bike paths component, this data was provided to the responsible Minister to inform his funding decisions, but without the claims made in the application being scrutinised by the responsible department so as to be satisfied that the employment claims were realistic, and represented value for money for the grant being requested.

**4.35** In that context, whilst recognising that the anticipated employment outcomes for those projects that were approved and contracted for delivery should be treated with some caution, those outcomes were nevertheless expected to be significant. Specifically, in seeking funding, the proponents of the 167 projects that were contracted to receive bike paths component funding had indicated that, in aggregate, their projects would create or retain more than 1 130 short-term jobs and nearly 550 long-term jobs, as well as more than 80 work experience positions and nearly 90 traineeships. However, the funding agreements used for the bike paths component did not make any reference to the claimed employment outcomes that informed the decision to award funding to the contracted projects.

**4.36** Notwithstanding the absence of a contracted benchmark against which to assess performance, the funding agreement required funding recipients to report (in progress reports and a final report upon completion of the project) on the employment outcomes that were achieved, together with evidence to support the reported outcomes. However, compliance with these aspects of the reporting requirements was quite variable, with no employment outcomes being reported in respect to more than 20 per cent of contracted projects, and supporting documentation for claimed outcomes not being provided in respect to 94 per cent of those projects where one or more jobs had been reported as having been created or retained. In addition, for a significant number of projects, the reported outcomes were either significantly less or significantly greater than the employment claims outlined in the application for funding, but this did not cause the responsible department to investigate the reliability of the data being reported to it.

In the above circumstances, there is no reliable data available on actual employment outcomes achieved through projects funded under the bike paths component.

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Ian McPhee

Auditor-General

Canberra ACT

20 March 2012



# Appendices



## Appendix 1: Criteria derived from the Jobs Fund guidelines by the department responsible for the bike paths component

Jobs Fund guidelines statement	Criteria applied	Approach adopted to assessing whether criterion was met
Gateway criterion 1: Projects in areas experiencing high unemployment, a significant rise in unemployment or vulnerability.	Project is in an area experiencing high unemployment or a significant rise in unemployment or vulnerability.	Examined (sequentially) whether: <ul style="list-style-type: none"> <li>the project was in a Priority Employment Area (if yes—assessed as meeting criterion);</li> <li>if not, whether the area was rated as below average or poor under the DEEWR risk matrix (if yes—assessed as meeting criterion); and</li> <li>if neither of the above, whether the project location could otherwise be considered vulnerable.</li> </ul>
Gateway criterion 2: Projects must be viable and ready to start.	Project is ready to start.	Project viability not directly addressed as a criterion. Instead, risk assessment was used to consider any risks to project viability and readiness.
Funding under these quarantined components of the Local Jobs stream will not extend past 30 June 2010.	Bike paths component funding will be spent by 30 June 2010.	Risk assessment used to assess project sustainability including: <ul style="list-style-type: none"> <li>identifying instances where the proponent had indicated in the application submitted in May 2009 that the project was unlikely to be completed by 30 June 2010; and/or</li> <li>whether the proponent had confirmed the maintenance arrangements for the work.</li> </ul>
Gateway criterion 3: Funding will not extend past 2010–11. Projects will be expected to be self-sufficient and/or not require Australian Government funding beyond 30 June 2011.		
Funding for individual projects will be determined on a case-by-case basis to a maximum of \$2 million per project.	Bike paths component funding for the project is \$2 million or less.	Applications that sought more than \$2 million were assessed as ineligible.
The majority of funding must be used for construction.	The majority of bike paths component funding will be spent on construction.	Calculation undertaken as part of the assessment approach, based on budget submitted by applicant.

Jobs Fund guidelines statement	Criteria applied	Approach adopted to assessing whether criterion was met
All projects must also demonstrate that the activities to be funded are clearly additional to those that would have occurred in the absence of funding under the Jobs Fund.	The project activities to be funded are clearly additional to those that would have occurred in the absence of funding.	Departmental assessment records included a statement as to whether this requirement was considered to have been met, based on statements made by the proponent in the application form.
<p>Projects which will be considered for funding under the Jobs Fund must address at least one of the following four target areas:</p> <p>A. create jobs or retain people in jobs at risk due to the downturn</p> <p>B. build skills for the future</p> <p>C. build community infrastructure or improve community amenity which generates local jobs, or</p> <p>D. provide seed funding for social enterprises to start up, maintain or expand services, generating jobs and improving community services.</p>	The project meets a target area.	Departmental assessment stated whether each of the target areas was considered to have been met, based on statements made by the proponent in the application form.
List of project activities and costs for which bike paths component funding could and could not be used.	None specified.	In examining project viability risks, the risk assessment was to consider if the items submitted for funding were eligible.
Proponents need to demonstrate how the project will create local jobs and provide alternative transport options.	None specified.	<p>Job creation claims made in the application included in project summary provided to Minister, but assessment procedures did not:</p> <ul style="list-style-type: none"> <li>involve analysis of how the jobs would be created; or</li> <li>require a view to be formed as to whether the project would provide alternative transport options.</li> </ul>
A joint funding contribution of 50 per cent will be expected.	None specified.	Project summary provided to Minister stated the amount of partnership funding for the project, but did not identify those with less than 50 per cent as being non-compliant/ineligible.

Source: ANAO analysis of Jobs Fund Guidelines and Regional Australia data.



## Appendix 2: Example of project summary provided to responsible Minister in respect to each application

### Page 1:

<b>Project ID:</b>	NBP209	<b>Primary Electorate:</b>	Boothby
<b>Project Title:</b>	Hills-Plains Commuter/Recreation Path (Caroline Path)	<b>Total Project Value:</b>	\$756,200 GST Exc.
<b>Applicant/Organisation Name:</b>	City of Mitcham	<b>Amount Sought:</b>	\$610,100 GST Exc.
<b>Applicant/Organisation Type:</b>	Local Government		
<b>Project Location:</b>	Belair & Lynton, SA	<b>Priority Area:</b>	
<b>Project Completion Date:</b>	June 2010		

### Project Description

The project, located in Belair & Lynton, South Australia, will construct a 1,625m bikepath linking Caroline Ave, Belair to Beagle Terrace, Lynton, and provide a safe, all weather, hard-surface bike path that links the Mitcham Hills to the Mitcham Plains.

### Job Claims (numbers)

Short terms jobs (less than 6 months)		Long term jobs (greater than 6 months)		Work Experience		Traineeships	
Created	Retained	Created	Retained	Created	Retained	Created	Retained
1	3	1	3	0	0	1	1

### Project Funding – Total Project Cost

Name of Partner	Value of Contribution GST Exc.	Status of Contribution	Cash or In-Kind Contribution	% Total Project Cost
Department of Infrastructure, Transport, Regional Development and Local Government	\$610,100	Sought	Cash	81%
City of Mitcham	\$1,500	Confirmed	Cash	0%
City of Mitcham	\$44,600	Confirmed	In-kind	6%
South Australian Government (Planning SA)	\$100,000	Sought	Cash	13%
<b>Total Contributions (GST Exc.):</b>	<b>\$756,200</b>			

## Page 2:

### Assessment of Jobs Fund Guidelines Requirements

The Department considers, based on the information provided by the applicant, that:-

The project is ready to start.	Yes
NBPP funding will be spent by 30 June 2010.	Yes
The project is in an area experiencing high unemployment or a significant rise in unemployment or vulnerability.	No
NBPP funding for the project is \$2 million or less.	Yes
The majority of NBPP funding will be spent on construction.	Yes
Funding will be spent on items that are not retrospective.	Yes
The project activities to be funded are clearly additional to those that would have occurred in the absence of funding.	Yes
The project meets a Target Area.	Yes

### Assessment Summary

Based on the information provided by the applicant, the Department considers that this project:

- is not in a Priority Area and it is located in the South and East Adelaide Region which is rated by the Regional Matrix as being Strong with an unemployment rate of 3.1% which is lower than the national average of 5.9%. The applicant states that the Mitcham area has a substantial number of residents with lower levels of education which impacts on employment status and type. However, the Department does not consider that the applicant has made a strong case that the project is in an area experiencing high unemployment, a significant rise in unemployment or vulnerability;
- is expected to create 1 and retain 3 short term jobs, create 1 and retain 3 long term jobs and create and retain 1 traineeship;
- is ready to start within six months of signing the funding agreement;
- is due to be completed by June 2010; and
- has partnership funding which represents 19% of total project Budget.

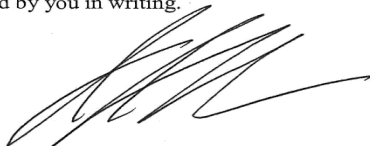
The Department has assessed the information available and considers that while the City of Mitcham is able to deliver and sustain the Hills-Plains Commuter/Recreation Path (Caroline Path) project, the project does not meet gateway criteria 1 which requires applicants to demonstrate that the project is located in an area experiencing high unemployment, a significant rise in unemployment or vulnerability.

The Department considers that this project has addressed two of the four target areas but has only met two of the three gateway criteria.

The Department has undertaken a risk analysis of the applicant and project and accepts identified risks associated with the applicant's capacity to manage National Bike Path Program (NBPP) funding and deliver and sustain the project. The risks and proposed controls/treatments available to the Department have been included at Attachment A.

## Page 3 (Minister's Approval Block):

~~APPROVE~~/NOT APPROVE Jobs Fund Program – National Bike Path Projects funding of \$640,100 (GST exclusive) to the City of Mitcham for the Hills-Plains Commuter/Recreation Path (Caroline Path) project, imposing the risk treatments identified at Attachment A and any conditions requested by you in writing.



ANTHONY ALBANESE

14/10/2009

## Page 4 (Risk Assessment Summary):

(Attachment A)

**Risk Analysis Table**

Risk Category	Risk	Current Controls	Pre-Treatment Risk Level	Proposed Treatments	Post-Treatment Risk Level	Risk Rating Post Treatment – Acceptable YES/NO
Project Viability and Readiness	<p>Based on the information provided by the applicant, the Department considers the applicant has demonstrated it has planned and prepared for the project, that the project is ready to commence within 6 months, has sufficient management expertise to deliver the project, and will achieve the results identified in the project application.</p> <p>However, the Department considers there is a risk that project delivery will be delayed or will not be successful because the contract has not been let, a final project Budget and detailed plans have not been provided and partnership funding is not secured.</p>	<p>While Clause 2.9 requires the commencement of construction within 6 months of F/A execution, Clause 31.3 requires evidence within 6 months of F/A execution that approvals have been obtained and Clause 2.4 notes that the Commonwealth is not responsible for shortfalls. These controls are considered inadequate and further treatment is required.</p> <p>In relation to partnership funding, the Funding Agreement (FA) identifies other contributions at schedule C2 and obligates their receipt at Clause 4a and Clause 2.9 of the FA requires commencement of construction within 6 months. These controls are considered to be fully adequate without further treatment.</p>	Low	<p>Ensure the following treatment is included in the Funding Agreement before National Bike Path funding (NBPP) funds are released to the applicant:-</p> <ul style="list-style-type: none"> <li>- That final work plans are in place and contractors are engaged; and</li> <li>- the project Budget is confirmed.</li> </ul>	Very Low	Yes

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