

The Auditor-General  
Audit Report No.7 2011–12  
Performance Audit

**Establishment, Implementation and  
Administration of the Infrastructure  
Employment Projects Stream of the Jobs  
Fund**

**Department of Infrastructure and Transport**

Australian National Audit Office

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Canberra ACT  
22 September 2011

Dear Mr President  
Dear Mr Speaker

The Australian National Audit Office has undertaken an independent performance audit in 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 Infrastructure Employment Projects 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

## AUDITING FOR AUSTRALIA

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

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# Abbreviations and Glossary

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ANAO	Australian National Audit Office
CGGs	Commonwealth Grant Guidelines
COAG	Council of Australian Governments
COPE	Commonwealth Own Purpose Expenditure
Council Allocation component	A component of the RLCIP program under which a total of \$450 million was shared across three rounds amongst all local governments through a non-competitive, direct allocation (calculated on the basis of a formula).
DEEWR	Department of Education, Employment and Workplace Relations
DEWHA	The former Department of the Environment, Water, Heritage and the Arts
DSEWPaC	Department of Sustainability, Environment, Water, Population and Communities
DVA	Departmental Viability Assessment
ERC	Expenditure Review Committee of Cabinet
FaHCSIA	Department of Families, Housing, Community Services and Indigenous Affairs
FFR Act	<i>Federal Financial Relations Act 2009</i>
FMA Regulations	<i>Financial Management and Accountability Regulations 1997</i>
IDC	Interdepartmental Committee, chaired by DEEWR, which was established in June 2009 to support the <i>Keep Australia Working</i> initiative to develop a whole of government strategy to build on existing initiatives to support Australian jobs.
IEP	Infrastructure Employment Projects stream of the Jobs Fund



Infrastructure	Department of Infrastructure and Transport (and the former Department of Infrastructure, Transport, Regional Development and Local Government)
Infrastructure Minister	Minister for Infrastructure and Transport (formerly Minister for Infrastructure, Transport, Regional Development and Local Government)
IVA	Independent Viability Assessment
Joint Committee	Joint Committee comprising staff from DEEWR, Infrastructure, DEWHA and FaHCSIA. The Jobs Fund program guidelines stated that this committee would determine a project's suitability for funding under the Local Jobs or Get Communities Working streams and direct to the appropriate department for assessment (unless the department had already conducted an assessment). The guidelines further stated that Infrastructure Employment Projects initiated by the Australian government would be referred by Infrastructure to the Joint Committee for its consideration and advice.
LEC	Local Employment Coordinators (originally known as Priority Area Employment Coordinators and then Priority Area Employment Directors).
LGA	Local Government Area
Minister for Regional Australia	Minister for Regional Australia, Regional Development and Local Government
PAEC	Priority Area Employment Coordinators, which were originally known as Priority Area Employment Directors. These positions were subsequently renamed Local Employment Coordinators.
PAIF	Priority Area Infrastructure Fund
PM&C	Department of the Prime Minister and Cabinet

Priority Employment Area	These were established by the Government in 2009 as part of its response to the global financial crisis. The 20 Priority Employment Areas were selected on the basis of analysis undertaken by DEEWIR of a range of indicators in order to identify and provide assistance to those regions with labour markets which were likely to experience labour market disadvantage and deterioration as a result of the global recession.
Regional Australia	Department of Regional Australia, Regional Development and Local Government
RLCIP	Regional and Local Community Infrastructure Program, which, along with two elements of the Jobs Fund (being the IEP stream and bike paths component of the Local Jobs stream), was established as an economic stimulus program to be administered by the Infrastructure portfolio as part of the government's response to the global financial crisis.
SPBC	Strategic Priorities and Budget Committee of Cabinet
Strategic Projects component	A component of the RLCIP program where \$670 million was made available to local government authorities for a limited number of large strategic projects through two competitive funding rounds.
TFA	Temporary Financial Assistance payments available in 2008–09 under a component of the Get Communities Working stream of the Jobs Fund to non-project organisations whose donor base was under pressure due to the economic downturn.

# **Summary and Recommendations**



# Summary

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## Introduction

1. The Infrastructure Employment Projects (IEP) stream of the 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. Funding under the IEP stream was announced as being available over two years (to 30 June 2011) for the construction of local infrastructure that would create immediate jobs in communities most affected by the global recession.

2. In addition to the \$150 million IEP stream, the integrated \$650 million Jobs Fund also comprised a \$300 million Local Jobs stream<sup>1</sup> and a \$200 million Get Communities Working stream. 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. This was reflected in one set of guidelines initially being developed encapsulating all three funding streams. These guidelines, which were published in April 2009, identified a common set of threshold criteria, comprising nominated target areas and gateway criteria, which had a focus on the delivery of timely economic stimulus. 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>2</sup> as well as meeting each of the 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

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<sup>1</sup> The Local Jobs stream included two quarantined sub-streams: \$60 million was specifically set aside for heritage-related projects (broken down into a number of sub-components); and \$40 million was set aside for bike path projects.

<sup>2</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.

- funding would not extend past 2010–11.<sup>3</sup> Projects were expected to be self-sufficient and/or not require Australian Government funding beyond 30 June 2011.<sup>4</sup>
3. Infrastructure and construction-related projects were able to be considered for funding under all streams of the Jobs Fund. However, while the maximum grant available under both the Local Jobs and Get Communities Working streams was \$2 million, there was no cap on individual project amounts that could be funded under the IEP stream. In this context, the IEP stream was to contribute to the Jobs Fund objective of supporting and creating jobs and skill development by building community infrastructure. The published guidelines outlined that this would involve targeting local community needs and creating jobs in construction, related industries and the general community.
4. Another key difference between the IEP stream and the Local Jobs and Get Communities Working streams related to the way in which projects seeking funding were to be identified. The latter two streams were to operate through an open call for applications from eligible entities, with funding recipients to be determined on a competitive basis.<sup>5</sup> The same types of entities were eligible to receive funding under the IEP stream, but the Jobs Fund guidelines stated that candidates for funding under this stream would be initiated by the Australian Government and each candidate project would be assessed against the guidelines in its own right.

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

5. The Jobs Fund was one of two major initiatives under the ‘local communities’ element of the Jobs and Training Compact announced by the

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<sup>3</sup> Elsewhere, the guidelines outlined that funding under the two quarantined components of the Local Jobs stream (see footnote 1) was not to extend past 30 June 2010.

<sup>4</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 Jobs Fund program guidelines applying to the Local Jobs and Get Communities Working streams administered by DEEWR were similarly amended to extend the project completion date under those streams to 30 June 2012 to allow some delayed projects to be completed and deliver the anticipated community benefits.

<sup>5</sup> For the heritage component of the Local Jobs stream, the guidelines also provided for targeted calls for applications to be made, with the outcome to be determined on a competitive basis.

Government in April 2009.<sup>6</sup> The other major initiative was the engagement of Local Employment Coordinators in nominated Priority Employment Areas. The Local Employment Coordinators were to be a core part of the Commonwealth's infrastructure-related stimulus measures, with a role of ensuring opportunities provided by government programs and the private sector were used to boost the local economy. In total, 20 Priority Employment Areas were identified.

6. 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>7</sup>

## Administering agencies

7. Administration of the Jobs Fund was shared between four agencies. The Department of Education, Employment and Workplace Relations (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.

8. The program guidelines outlined that the IEP stream would principally be administered within the then Infrastructure, Transport, Regional Development and Local Government portfolio. In particular, the guidelines stated that the then Department of Infrastructure, Transport, Regional

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<sup>6</sup> The Jobs and Training Compact with Australians affected by the global recession, promising training, support and local initiatives to help them get back to work, 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. See: The Hon Kevin Rudd MP, Prime Minister of Australia, Media Release, *Government establishes Jobs and Training Compact*, 5 April 2009.

<sup>7</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 funding remaining available under the Local Jobs and Get Communities Working streams of the Jobs Fund.

Development and Local Government (Infrastructure<sup>8</sup>) would assess projects that had been initiated by the Australian Government and make funding recommendations to the then Minister for Infrastructure, Transport, Regional Development and Local Government (the Infrastructure Minister).<sup>9</sup> Assessment advice was provided at two stages: an initial appraisal of a project concept referred to the department by the Infrastructure Minister or his Office; and a full assessment, incorporating an analysis of risks and assessment of projects against the Jobs Fund gateway criteria and target areas.

## Program status

9. Over the two years between July 2009 and June 2011 (being the original program timeframe), 19 projects were initiated for consideration of possible IEP stream funding. The aggregate funding considered for these projects was \$175.2 million, compared with the \$132.7 million that was available to fund projects under the IEP stream over that period.<sup>10</sup>

10. As at 30 June 2011, 12 of the 19 initiated projects had been recommended for funding approval by Infrastructure. Each was approved by the Infrastructure Minister, with total approved funding of some \$82.7 million.

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<sup>8</sup> The Administrative Arrangements Order of 14 September 2010 created the Department of Regional Australia, Regional Development and Local Government (Regional Australia) within the Prime Minister and Cabinet portfolio, with the Department of Infrastructure, Transport, Regional Development and Local Government becoming the Department of Infrastructure and Transport (Infrastructure). Initially, responsibility for administering the IEP stream of the Jobs Fund was moved to Regional Australia from Infrastructure, with the Minister for Regional Australia, Regional Development and Local Government (Minister for Regional Australia) taking responsibility for funding decisions under the program. On 28 October 2010, the Minister for Regional Australia and the Infrastructure Minister agreed that the Infrastructure Minister would resume responsibility for the IEP stream, with administration of the program being returned to Infrastructure with effect from the week commencing 1 November 2010. For the purposes of this report, the former Department of Infrastructure, Transport, Regional Development and Local Government and the current Department of Infrastructure and Transport are both referred to as 'Infrastructure'.

<sup>9</sup> Following the 2010 federal election, the Minister's portfolio responsibilities were revised, with the Minister becoming the Minister for Infrastructure and Transport. Throughout this report, the Minister is referred to as the Infrastructure Minister. The functions relating to regional development and local government (including the bike paths component of the Local Jobs stream of the Jobs Fund) became the responsibility of the Minister for Regional Australia, with those functions being administered by the newly created Regional Australia (see footnote 8).

<sup>10</sup> Following 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. Of the \$150 million allocated to the IEP stream, \$5.8 million was set aside for Infrastructure's departmental administrative costs, leaving \$144.2 million available for funding projects under that stream over two years to 30 June 2011. The program funding available for IEP stream projects was further reduced through the 2009–10 Additional Estimates process from \$144.2 million to \$132.7 million over two years to 30 June 2011 as a result of decisions taken to transfer a total of \$11.5 million to other programs.



As of 30 June 2011, a funding agreement or other oversight document was in place for each of these projects, the final of which was executed on 28 June 2011. Construction work had been completed for four projects, and was underway and at various stages of completion for seven of the remaining eight approved and contracted projects.

11. Each of the 12 projects approved for IEP stream funding involved the construction of infrastructure that is expected to benefit the relevant local communities. The projects are located in nine different cities, towns or regions, across five States. The nature of the individual grants ranges from the construction of a skate park at a cost of some \$390 000 to \$20 million for a State National Park project that involves the reconstruction and sealing of some 80 kilometres of access roads, upgrading of recreational day visit and camping site facilities, and construction of some 50 kilometres of walking trail.

12. As at 30 June 2011, the originally planned closing date for the program, three of the 19 initiated projects were not being further considered for IEP stream funding (in aggregate, those projects had been considered for potential funding of \$44 million). In a further instance, the Minister agreed to a recommendation from Infrastructure, following completion of the assessment process, that funding not be approved for the Wilcannia Business Hub project that was seeking \$2.4 million in funding. Infrastructure advised the Minister that the resulting 'savings' could be applied to other Government priorities or as off-sets in the Budget process to deliver other portfolio priorities. In this context, in May 2011, the Cloncurry Community Precinct project was initiated for funding consideration. The following month, after he was provided with the results of the department's initial assessment of that project, the Minister agreed to departmental recommendations that he:

- close the IEP stream to new projects not already approved or given in-principle agreement;
- seek to establish a new administered item outside of the IEP stream with the \$2.4 million in unallocated funds to support the Cloncurry Community Precinct project, due to concerns that the project may not be completed before the revised program end-date of 30 June 2012.<sup>11</sup> By

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<sup>11</sup> The Infrastructure Minister wrote to the Prime Minister on 23 June 2011 seeking the Prime Minister's approval to fund the Cloncurry Community Precinct project from funds within the Minister's portfolio and to create a new administered item within the Minister's portfolio to facilitate this, to be offset by savings from the IEP stream of the Jobs Fund.

removing funds from the IEP stream and establishing a new administered item, the project would no longer be assessed against the Jobs Fund guidelines in deciding whether to approve the spending of public money; and

- note that the remaining two potential IEP stream projects (the Cairns Cultural Precinct and the Essendon Sporting and Community Hub), which had been initiated for an aggregate value of \$46 million in IEP stream funding consideration in April and May 2010 respectively, could in the future be similarly removed from consideration under the IEP stream (given IEP stream funding was to end on 30 June 2012) and progressed as separate administered items. This approach was being contemplated given continuing doubts about whether these two projects would commence and be completed by the revised program end-date of 30 June 2012. As noted at footnote 49, funding commitments in relation to these two projects were announced in August and July 2010 respectively. In September 2011, Infrastructure advised the Australian National Audit Office (ANAO) that these matters were still under consideration by government in relation to both projects, with a decision yet to be made.

## Audit objective

13. The focus of this audit is the IEP stream of the Jobs Fund. Separate performance audits are underway that are examining the establishment, implementation and administration of the separate components of the Local Jobs stream of the Jobs Fund.<sup>12</sup>

14. The objective of this audit was to assess the efficiency and effectiveness of the establishment, implementation and administration of the IEP 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.

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<sup>12</sup> The audits of the Local Jobs stream are expected to be tabled during 2011–12.

## Overall conclusion

15. The Government's objective in establishing the Jobs Fund was to support and create jobs and employment opportunities in communities affected by the global recession. The Infrastructure Employment Projects (IEP) stream was to contribute to this objective by funding the construction of local infrastructure that would create immediate jobs in communities affected by the global economic downturn.<sup>13</sup> The policy development for the Jobs Fund, and aspects of the program design for the IEP stream, were undertaken effectively with the necessary urgency required for a stimulus measure. However, shortcomings in designing and implementing an effective means for identifying and assessing candidate construction projects has meant that the IEP stream did not achieve the economic stimulus objectives set for it in the anticipated timeframe.

16. The 12 construction projects that have been approved for funding and contracted for delivery under the IEP stream of the Jobs Fund will provide employment<sup>14</sup> and other longer-term benefits through the delivery of community infrastructure in a number of different localities across Australia. By 30 June 2011, construction work had been completed for four projects, and was underway and at various stages of completion for seven of the remaining eight approved and contracted projects.

17. While contributing to the construction of community facilities, the amount of stimulus delivered to 30 June 2011 has been considerably less than that budgeted, with approved and contracted funding of less than \$83 million, 38 per cent lower than the \$132.7 million that was made available to fund stimulus projects. In addition, expenditure will now occur over at least three financial years rather than the planned two year window, with the majority of the expenditure now budgeted to occur in the third year.

18. In respect to employment outcomes, it was not until August 2010 that a project proponent reported to Infrastructure that an IEP stream project had

<sup>13</sup> Joint Media Release, *Fund to support jobs, build skills and community infrastructure*, The Hon. Kevin Rudd MP Prime Minister, The Hon. Julia Gillard MP Minister for Education, Minister for Employment and Workplace Relations, Minister for Social Inclusion, Deputy Prime Minister and The Hon Brendan O'Connor MP Minister for Employment Participation, 5 April 2009.

<sup>14</sup> In being asked to approve funding, the Minister had been advised by Infrastructure that, in aggregate, the 12 approved and contracted projects would create or retain more than 950 jobs as well as 37 work experience positions and 42 traineeships.

created or retained any jobs. In addition, the funds have not been targeted at those areas identified as having the greatest need for support, with none of the approved and contracted projects being located in a Priority Employment Area.

19. The design of the IEP stream provided for projects to be initiated by the Australian Government, which provided considerable discretion as to the projects selected for assessment and possible funding. Infrastructure interpreted the statement in the program guidelines that candidate projects would be government initiated to mean that the department did not have a role in assisting the Government to identify potential candidates for funding consideration, or to otherwise advise on that aspect of the program's implementation.<sup>15</sup> As a consequence, the department did not assist its Minister with the early identification and targeting of promising projects that could be expected to deliver timely and effective economic stimulus, as well as providing long-term community benefits. Instead, the department only responded to referrals from the Minister or his Office. The consequences of this approach were that other projects that were likely to have satisfied the eligibility criteria were not put forward for ministerial consideration; proponents were uncertain as to whether they could submit proposals to receive grants under the IEP stream and to whom; there were inconsistencies in whether projects were considered for funding notwithstanding similarities in the timing and manner in which proposals were put forward; and timely stimulus was impeded by the considerable delays that occurred in developing a pool of candidate projects for funding consideration.

20. In addition, when assessing candidate projects referred to it by the Infrastructure Minister's Office, Infrastructure did not analyse each proposal's overall quality in contributing to the stated program objectives so as to provide advice to the decision-maker on the merits of candidate projects. Under the two stage assessment approach that was adopted, the initial assessments were not used to focus the full assessment process on only those proposals that appeared likely to meet the Jobs Fund gateway criteria and the program's objectives to a high standard. At the full assessment stage, the department

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<sup>15</sup> After the Jobs Fund guidelines were published and before funding became available on 1 July 2009, Infrastructure undertook some work to identify how the department could provide advice to its Minister on suitable candidate projects. However, these working documents had no particular status ascribed to them, and this work was not finalised into an implementation plan or strategy for the IEP stream.

limited itself to being satisfied that each of the threshold criteria could be viewed as having been met to a minimum standard, and that any identified risks could be managed through a funding agreement. This reflected the department's quite narrow view of its role in the administration of this program, and does not sit comfortably with the requirements of the enhanced grants administration framework.<sup>16</sup> In this context, there were no occasions where the Minister acted other than in accordance with the departmental funding recommendation he received.<sup>17</sup>

21. The audit findings underline the importance of stimulus spending programs being implemented in a way that quickly and effectively targets funding at projects that are likely to provide the maximum stimulus effect in the desired timeframe for those communities identified as most in need of assistance. It also draws attention to the importance of departments clarifying expected arrangements for the administration of grant programs in the interests of providing sound advice to the Minister on strategies for identifying potential candidate projects, and then conducting project assessments in a way that supports achievement of the objectives of the program established by government. This is commonly achieved by departments seeking Ministerial agreement to an implementation strategy that outlines roles and responsibilities, identifies any risks to the achievement of program objectives and how they could be managed, and seeks to clarify any areas of uncertainty.

22. ANAO has made two recommendations which are both aimed at improving the administration within the Infrastructure portfolio and agencies more widely of grant programs that do not involve an open call for applications, having regard for the key principles for grants administration set out in the Commonwealth Grant Guidelines (CGGs).<sup>18</sup>

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<sup>16</sup> 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 program.

<sup>17</sup> Assessments were completed in respect to 13 projects. In 12 instances, Infrastructure recommended that IEP stream funding be approved, and the Minister approved funding. On one occasion, the Minister agreed with a recommendation from Infrastructure, following completion of the assessment process, that he agree to withdraw a project from funding consideration. Paragraph 12 outlines the situation in respect to the remaining six instances where a project was initiated for IEP stream funding consideration.

<sup>18</sup> Department of Finance and Deregulation, *Commonwealth Grant Guidelines—Policies and Principles for Grants Administration*, Financial Management Guidance No. 23, July 2009.

## Key findings by Chapter

### Program establishment (Chapter 2)

23. Robust planning and design is one of the key principles for grants administration set out in the CCGs. The IEP stream of the Jobs Fund exhibited some of the features of a well designed grants program. In particular:

- analysis was undertaken by the lead policy agency (DEEWR) to identify the overall objectives and focus of the Jobs Fund, including identifying those communities most affected by the economic downturn and which would, accordingly, be the focus of assistance under the Jobs Fund; and
- program guidelines were developed by agencies, approved by the then Prime Minister and published.

24. The policy development and aspects of the program design for the Jobs Fund was effectively undertaken with the necessary urgency required in relation to a stimulus measure. However, a key shortcoming with the program design was that the program guidelines published in April 2009 were not sufficiently robust. For the IEP stream, the guidelines did not clearly outline the processes through which projects could be initiated for consideration of possible funding.

25. More broadly, whilst the guidelines included eligibility and threshold requirements that projects would be required to satisfy in order to be considered for funding, they did not clearly articulate the assessment criteria<sup>19</sup> that would be applied in selecting which of the compliant and eligible proposals would receive funding under both the competitive elements of the Jobs Fund and the non-competitive IEP stream. In particular:

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<sup>19</sup> As outlined in ANAO's Better Practice Guide on the administration of grants, selection criteria form the key link between a program's stated objectives and the outcomes that are subsequently achieved from the funding provided. 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 (see ANAO Better Practice Guide, *Implementing Better Practice Grants Administration*, June 2010, pp. 61–62).

- whilst the lead department (DEEWR) advised ANAO that value for money considerations were expected to underpin the entire assessment process, the guidelines did not establish value for money as a key criterion to be applied in selecting funding recipients from among compliant proposals; and
- application of the published gateway criteria and target areas alone was insufficient to support a transparent and consistent assessment of the overall merit of proposals.<sup>20</sup>

### **Project initiation (Chapter 3)**

26. An early and important consideration in the design of a grant program is establishing how to structure the process by which potential funding recipients will be identified and are able to access the program. Since 1 July 2009, the CGGs have required that, unless specifically agreed otherwise by the Government, competitive, merit-based selection processes should be used based upon clearly defined selection criteria.<sup>21</sup> Nevertheless, it remains quite common for grant programs to operate through non-competitive processes.

27. The program funding available under the Jobs Fund, including through the IEP stream, was contestable in that state and local government, the private sector and community organisations were all eligible to be funded. However, it was decided that the IEP stream would operate through a non-competitive and closed process of deciding which projects would be considered for possible funding.

28. The published program guidelines stated that projects would be 'initiated' by the Australian Government. However, neither the guidelines nor any other program documentation outlined the avenues that were available to project proponents to bring a promising project to the Government's attention, or otherwise articulate the process by which it would be decided which projects would be considered for IEP funding.

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<sup>20</sup> These issues are discussed further in relation to assessments under the IEP stream in Chapter 4 of this report (see paragraphs 4.49 to 4.60), and will be examined in more detail in relation to assessing the relative merits of competing, eligible applications in the separate performance audits underway of the separate components of the competitive Local Jobs stream of the Jobs Fund.

<sup>21</sup> Commonwealth Grant Guidelines, op. cit., p. 29.



29. In the normal course, it would be expected that the administering department would develop, for consideration by decision-makers, an implementation strategy that outlined roles and responsibilities, identified any risks to the achievement of program objectives and how they could be managed, and sought to clarify any areas of uncertainty (such as the operation of the initiation process).<sup>22</sup> However, Infrastructure did not develop an implementation strategy for the IEP stream. In the absence of such a strategy, the department interpreted the statement in the program guidelines that candidate projects would be government initiated to mean that the department did not have a role in assisting the Government to identify potential candidates for funding consideration. Against this background:

- opportunities were not taken to target funding at promising projects that had unsuccessfully applied to other oversubscribed stimulus programs, despite such an approach being envisaged during the design of the program (see further at paragraphs 31 to 33);
- no attempts were made to actively involve the Local Employment Coordinators in the identification of projects located in Priority Employment Areas that may have been suitable for consideration for IEP stream funding. This was the case notwithstanding that:
  - the Local Employment Coordinators were announced as being a core part of the Commonwealth’s infrastructure and stimulus measures, in order to focus Commonwealth resources on the 20 Priority Employment Areas (identified by DEEWR analysis as those areas with the greatest need for direct assistance); and
  - the Jobs Fund guidelines had explicitly provided for Local Employment Coordinators to play a role in identifying candidate projects for IEP stream funding<sup>23</sup>; and
- the lack of clarity in the guidelines about the manner in which candidates for IEP stream funding were to be identified led to a

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<sup>22</sup> For example, an implementation strategy was developed by Infrastructure and approved by the Minister in respect to the quarantined bike paths component of the Jobs Fund, as well as in respect to each round of the Strategic Projects component of the Regional and Local Community Infrastructure Program and in respect to the Better Regions Program.

<sup>23</sup> On at least one occasion, a Local Employment Coordinator did seek to have a project considered for possible IEP stream funding. However, contrary to the terms of the published program guidelines, no consideration was given to the merits of this project in terms of the Jobs Fund guidelines.



considerable number of funding inquiries and representations being received from, or on behalf of, state government entities, various local government authorities, community groups and private sector entities. Records of the initiation process did not indicate the criteria applied in deciding which representations would result in a project being accepted for initiation under the IEP stream, and those representations that were not to be considered.<sup>24</sup>

30. A relatively small pool of projects (19) has been formally considered for possible IEP stream funding since the program commenced on 1 July 2009. In the context of an economic stimulus program for which all funds were to be spent within two years, it was significant that there were also considerable delays in projects being initiated for funding consideration.<sup>25</sup> As illustrated by Figure S 1, the majority of projects considered for IEP stream funding were initiated during the first six months of 2010, with 11 projects being initiated for assessment over the course of 2010 and a further two projects being initiated for assessment in the first half of 2011. It was not until February 2011 that Infrastructure first advised its Minister that the need for economic stimulus through the IEP stream had diminished. In June 2011, the IEP stream was closed to new projects not already approved or given in-principle agreement.

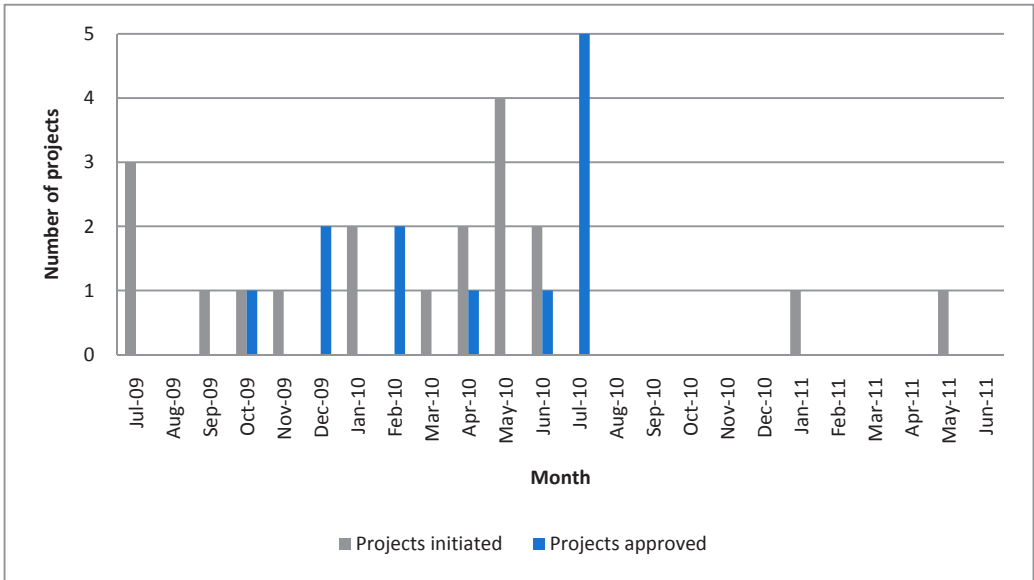
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<sup>24</sup> Seventeen of the 19 projects initiated as a possible IEP stream project had been the subject of a representation to Infrastructure, the Infrastructure Minister, the Treasurer or the then Prime Minister concerning possible Commonwealth funding. There were also numerous representations that were unsuccessful in having a project considered for IEP stream funding notwithstanding that they had been made through similar channels and/or at a similar time to those made in relation to projects that were initiated for funding consideration. None of the projects that were the subject of representations were subjected to any formal assessment against the program guidelines in order to establish their indicative merits as a basis for determining whether they should be initiated for funding consideration.

<sup>25</sup> Having regard for the timeframes typically involved in establishing and delivering infrastructure projects of the type eligible to be funded through the IEP stream, it was important that promising projects be selected as quickly as possible so as to provide economic stimulus when it was most needed and within the two year program window agreed by government.

Figure S 1

Timing and number of projects being initiated for assessment and, where relevant, approved for IEP stream funding: July 2009 to June 2011



Source: ANAO analysis of Infrastructure data.

*Unsuccessful applications to other economic stimulus programs*

31. Consistent with the original policy underpinnings for the IEP stream, an important source of projects considered for possible funding was unsuccessful applications to related economic stimulus programs.<sup>26</sup> Giving consideration to the possibility of funding some of these infrastructure-related applications under the IEP stream was reasonable given the closely aligned stimulus objectives of the related programs. This approach also offered a potentially efficient and cost-effective means of quickly identifying a population of candidate projects (particularly having regard for the resources already invested by applicants in preparing applications, and departments in assessing the applications against the same or similar criteria), while not limiting the Government’s prerogative to elect to consider other projects that may come to its attention through other channels. Nevertheless, to the extent that any of these projects were to be considered for IEP stream funding, it

<sup>26</sup> These programs were the Strategic Projects component of the Regional and Local Communities Infrastructure Program (RLCIP) (also administered by Infrastructure) and proposals submitted in response to the general call for applications under the Jobs Fund.

would be appropriate that there be a transparent process employed to identify which of the large number of candidate projects were potentially the most promising in terms of the published Jobs Fund guidelines and would, therefore, progress to being initiated for an IEP assessment.

32. However, the proponents of the ten previously unsuccessful applications that were invited to submit information that would be considered for IEP stream funding were afforded an opportunity that was:

- not made known to other unsuccessful applicants to these related stimulus programs; and
- denied to some other unsuccessful applicants that had similarly tried to have their project considered for IEP stream funding.

33. In this respect, the processes that were employed to select such projects for IEP consideration did not involve the department examining unsuccessful applications to related stimulus programs in terms of the Jobs Fund target areas and gateway criteria, in order to determine a population of known promising candidate projects for government consideration.<sup>27</sup>

34. Against the above background, the audit has highlighted the need for enhanced guidance from the Department of Finance and Deregulation (Finance) to assist agencies in implementing the seven key principles for grants administration outlined in the CGGs<sup>28</sup> in circumstances where a grant program operates through a non-competitive and/or non-applications based process. In this context, although the CGGs apply to all types of grants, the current guidance is focused on grant programs that operate through an open, competitive call for applications.

## **Project assessments and approvals (Chapter 4)**

35. As noted, assessment advice was provided at two stages: an initial appraisal of a project concept referred to the department by the Minister or his Office; and a full assessment, incorporating an analysis of risks and assessment of projects against the Jobs Fund gateway criteria and target areas. However,

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<sup>27</sup> For example, the unsuccessful applications to the Strategic Projects component of RLCIP and the applications-based streams of the Jobs Fund that were considered for possible IEP stream funding were not those that had been the most highly rated unsuccessful applications to those programs.

<sup>28</sup> Commonwealth Grant Guidelines, op. cit. p. 14.

the initial assessment stage was not used to focus the full assessment process on only those proposals that appeared likely to meet the Jobs Fund gateway criteria and the program's objectives to a high standard. This was reflected in the fact that in each of the first 15 instances where an initial appraisal was completed, the department recommended that the project proceed to a full assessment. This was despite the fact that in each case the department had either been unable to reach a preliminary view about whether the Jobs Fund gateway criteria had been satisfied and/or concluded that the project did not meet one or more of the gateway criteria.

36. In each of the 13 instances where a full assessment was completed, the assessment advice provided by Infrastructure to its Minister was not based on an analysis that scrutinised the overall quality of each proposal in contributing to the program objectives that involved supporting employment through the construction of community infrastructure that targeted local community needs. Rather, Infrastructure limited itself to being satisfied whether each of the threshold criteria had been met to a minimum standard, and that any identified risks to project delivery could be managed through a funding agreement. In this context:

- there were eight approved projects where the department's initial appraisal concluded that the first gateway criterion<sup>29</sup> had not been demonstrably met. In each instance, the final advice to the Minister concluded that this criterion had been met. However, departmental records did not address how factors initially identified as being of concern either by it or the independent viability assessment commissioned in relation to the project had either been addressed, or why these factors were no longer seen as being of concern;

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<sup>29</sup> This criterion required that a project be located in an area experiencing high unemployment, a significant rise in unemployment or vulnerability.

- there were considerable inconsistencies in terms of the approach taken by the department in coming to a view that the gateway criteria had been met by various projects<sup>30</sup>;
- where a project being considered for IEP stream funding had been the subject of an unsuccessful application to the competitive streams of the Jobs Fund, Infrastructure did not make any attempt to reconcile any differences between assessments undertaken in relation to the same project, despite the gateway criteria set out in the program guidelines being common across all streams of the Jobs Fund; and
- value for money considerations were not addressed by Infrastructure in its assessment work so as to support its advice to the Infrastructure Minister that the approval of funding for projects represented an efficient, effective and ethical use of public money.<sup>31</sup>

37. Infrastructure has advised ANAO that the approach taken by DEEWR in the non-quarantined competitive streams (involving analysis that compared the envisaged employment outcomes with the amount of funding sought, as well as considering a project's location, the level of targeted groups' disadvantage and envisaged immediate and long term community benefits) was not appropriate to the IEP stream because of the greater capital intensity of larger or more complex infrastructure projects. However, Infrastructure did not document or apply any alternative approach to considering the value for money offered by those projects that were being assessed for possible IEP stream funding.

38. In the first 12 instances where Infrastructure had completed its assessment of a candidate project, the department recommended to its Minister

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<sup>30</sup> For example, in respect to the unemployment gateway criterion (see footnote 29), focusing on whether the unemployment rate in the project location was higher than national or state averages was used as the basis for the department concluding that this criterion had been met for some projects. For other projects, such analysis would not have supported a conclusion that the gateway criterion had been met and so the department focused, instead, on whether the unemployment rate in the project location had increased in absolute terms (without addressing whether it nevertheless still remained well below the state or national average). For projects where neither of these two considerations would have supported a conclusion that the project was in an area particularly adversely affected by the economic downturn, the department advised its Minister that he could consider 'vulnerability in the construction industry more generally'.

<sup>31</sup> From 1 March 2011, the relevant requirement was amended such that an approver is not to approve a spending proposal unless satisfied that the expenditure will make efficient, effective, economical and ethical use of the Commonwealth resources.

that funding be approved. In each of these 12 instances, the Minister agreed to the department's recommendation and approved IEP stream funding. In April 2011, the department recommended against the approval of funding for the remaining project where the full assessment had been completed, in part due to the project not being likely to be completed by the current program end-date of 30 June 2012. The Minister again agreed with the department's recommendation.

39. Combined with the shortcomings in the processes by which projects were initiated for consideration of IEP stream funding, the assessment approach taken by Infrastructure meant that the focus was not on identifying and selecting funding recipients that best represented value for money in terms of the relevant project's potential community benefits and expected economic stimulus effect for the amount of funding being sought. In this context, Finance advised ANAO in June 2011 that, whilst agencies should have regard to the seven key principles of grants administration for all forms of granting activity, the existing guidance provided through the CGGs focuses more strongly on competitive merit based processes. Finance agreed with ANAO that there would be merit in the guidance issued to agencies being expanded to clarify the application of these principles to all grant activity. ANAO has recommended accordingly.

## **Program outcomes (Chapter 5)**

40. Infrastructure sought to expeditiously implement project oversight arrangements with approved funding recipients.<sup>32</sup> However, no funding agreements were signed until March 2010 (over nine months into the planned 24-month program life) and there have been some considerable delays in the negotiation and signing of agreements to govern the provision of funding for a

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<sup>32</sup> These arrangements involved non-binding Implementation Plans under a National Partnership Agreement for the three projects where payments are made to a state government entity, and legally enforceable bilateral funding agreements for all other approved projects.

number of approved projects<sup>33</sup>, with consequential delays in program expenditure. Given the program guidelines stipulated that a proponent must not begin project activities dependent on funding before a funding agreement had been signed, these delays also diminished the program's ability to provide timely economic stimulus through the construction of community infrastructure.

41. Once the relevant arrangements were in place, the department implemented effective procedures to monitor project commencement and progress as reported to it by the funding recipient. In addition, the funding arrangements adopted by the department reflected the importance of balancing:

- the economic stimulus imperative of making timely payments to project proponents to allow construction work to commence and proceed as soon as possible; with
- protecting the Commonwealth's interest. For example, initial payments ranged between two per cent and 50 per cent of the total grant; there were no instances where the initial payment was made solely because the funding agreement had been signed; and further payments were not made until such time as project milestones had been met and earlier payments had been spent or were about to be spent.

42. Whilst some projects have experienced delays, many of the contracted projects are proceeding in accordance with the contracted timeframe and within the approved funding envelope. Where costs have increased, project proponents have been expected to source additional funding rather than obtain additional Australian Government funding, or reduce the project scope.

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<sup>33</sup> For two projects involving payments to a state government entity, this delay was the consequence of Infrastructure being required to enter into a National Partnership Agreement which, therefore, needed to be negotiated with all states and territories—the need for this approach to be adopted in order to provide funding for these projects was not identified until late in 2009. Bilateral Implementation Plans then needed to be negotiated and agreed with the relevant state for each of these projects before the project could commence. For a number of the remaining projects governed by a bilateral funding agreement and the remaining project subject to the National Partnership Agreement, there was considerable delay with the preparation and signing of the agreement, largely due to the immature nature of the project at the time of funding approval or to other factors that prevented the details of the funded project from being settled for some time following funding approval. As discussed at paragraphs 5.8 to 5.24, the requirement for a National Partnership Agreement had been identified as a result of discussions between Infrastructure and Treasury in late 2009, but in August 2011 Finance advised ANAO that, after examining the IEP selection process, it had confirmed that the relevant payments should be classified in the same manner as other Jobs Fund payments. Consequently, a National Partnership Agreement had been not required for these payments.

## *Financial stimulus*

43. 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>34</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 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 two years (from 1 July 2009 to 30 June 2011).

44. In the context of an earlier audit, Treasury informed ANAO that where infrastructure and public capital works projects can be implemented quickly, they are likely to boost aggregate demand in the short term and add to productive capacity over the longer term.<sup>35</sup> Further in this respect, in the context of another ANAO audit of a stimulus program<sup>36</sup>, Treasury advised ANAO in April 2010 that:

The medium-term infrastructure spending profile (subsequently published in the 09–10 Budget papers) showed 'medium-term' infrastructure spending ramping up in late 2009 and through 2010. The overall stimulus had its largest impact in 2009, but the infrastructure elements were designed to provide ongoing support to the economy during what we forecast would be a period of protracted weakness lasting well into 2010 and 2011.

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<sup>34</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.

<sup>35</sup> ANAO Audit Report No.33 2009–10, *Building the Education Revolution—Primary Schools for the 21<sup>st</sup> Century*, Canberra, 5 May 2010, p. 14.

<sup>36</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. 156.

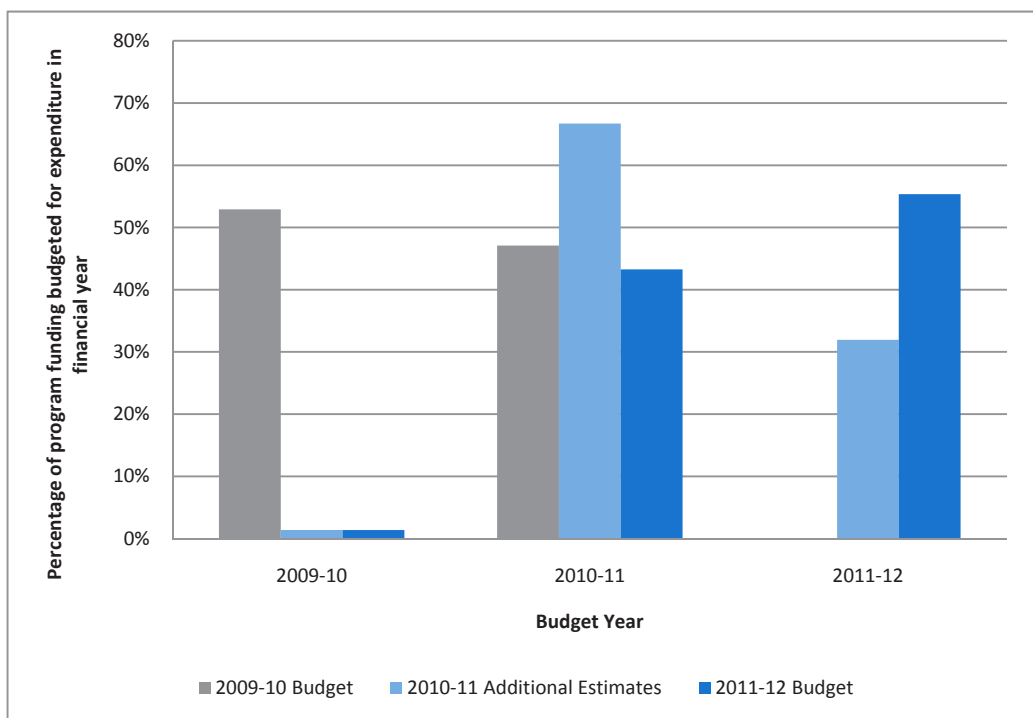


Treasury modelling assumed (ex ante) that the infrastructure construction activity funded through the Nation Building and Jobs Plan would line up closely with this profile of spending.

45. However, the IEP stream has not provided the planned level of stimulus in the timeframe that had been budgeted. In particular, only half of the approved projects were contracted to be completed by the original program end date of 30 June 2011 and, by this date, 38 per cent of program funds remained uncontracted. There have also been significant budgetary rephasings such that expenditure under what was originally intended to be a targeted, two year stimulus program will now occur over at least three financial years (see Figure S 2). This situation largely reflects the delays that occurred in projects being identified for possible IEP stream funding, and the fact that those projects that were chosen did not involve significant construction activity in 2009–10.

**Figure S 2**

**Budgeted expenditure on IEP stream projects**



Source: ANAO analysis of Infrastructure data.

## *Employment outcomes*

46. 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. 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 requiring that only those projects that were viable and ready to start would be eligible for funding. In addition, reflecting the intention that the economic stimulus be provided across the 2009–10 and 2010–11 financial years, the guidelines included a further mandatory eligibility criterion that funding for projects was not to extend past 30 June 2011.

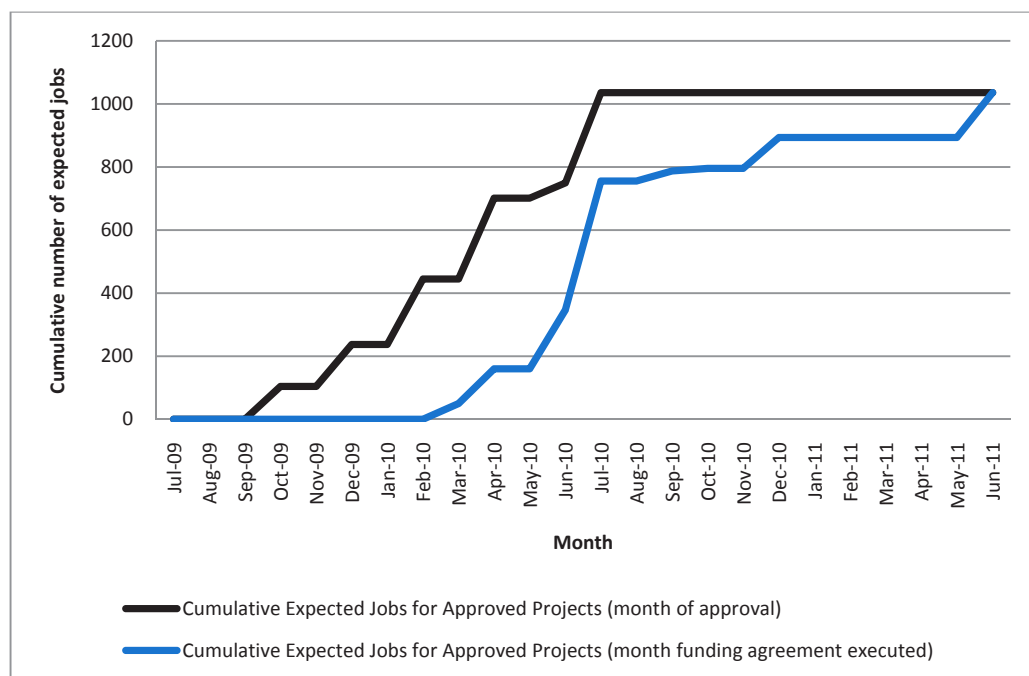
47. As illustrated by Figure S 3, as a consequence of the delays in projects being initiated and subsequently approved for IEP stream funding, it was not until some months into the planned two year program that significant expected employment outcomes were able to be identified. The capacity to generate timely economic stimulus was further affected by subsequent delays that were experienced in finalising funding agreements for a number of approved projects. Consequently, it was not until mid-2010 that arrangements were in place to enable some approved projects to commence in order that they could start generating the proposed employment outcomes. As a result, despite the April 2009<sup>37</sup> announcement of the IEP stream stating that the funding of construction of local infrastructure would create immediate jobs in communities affected by the global economic downturn, it was not until August 2010 that any project proponent reported to Infrastructure that an IEP stream project had created or retained any jobs.

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<sup>37</sup> Joint Media Release, *Fund to support jobs, build skills and community infrastructure*, op. cit., 5 April 2009.

**Figure S 3**

**Cumulative expected jobs for approved IEP projects as at month of approval and month of funding agreement execution**



Source: ANAO analysis of Infrastructure data.

## Summary of agency responses

48. The proposed audit report or relevant extracts were provided to the Infrastructure Minister, Infrastructure, DEEWR, Finance and Treasury for comment, with comments being received from Infrastructure, DEEWR, Finance and Treasury. Formal comments on the proposed audit received from Infrastructure and DEEWR have been incorporated in Appendix 1 to this report. Formal comments received from Finance and summary comments provided by Infrastructure are set out below. Additional comments received from Infrastructure, DEEWR and Finance and the comments received from Treasury were also considered in preparing the final audit report.

### Department of Infrastructure and Transport

49. Infrastructure's summary response is reproduced below. Infrastructure's full response is at Appendix 1 to this audit report.

The Department of Infrastructure and Transport notes the findings in the report and emphasises the context in which the IEP was developed, which required a range of program and policy responses to the Global Financial Crises (GFC). The IEP was designed to deliver community infrastructure projects, with long term benefits beyond the GFC.

Consistent with the agreed program guidelines, the department took the approach that projects were to be initiated and selected by government. The department then worked to implement and manage those projects in an effective way, as recognised in the report.

The department accepts Recommendation No. 1 (which is directed at the department) and also notes that findings from earlier audits are contributing to continually improving program development and delivery across the organisation.

## **Department of Finance and Deregulation**

50. Finance's full response is reproduced below.

Finance supports Recommendation No. 2, which proposes that Finance improve existing guidance on grants administration to promote the effective application of the seven better practice principles outlined in the Commonwealth Grants Guidelines (CGGs) to all forms of granting, including where a grant program operates through a non-competitive and/or a non-applications-based process.

Whilst competitive, merit-based selection processes are not a mandatory requirement of the CGGs, they represent best practice and as such agencies are strongly encouraged to employ such processes. Finance supports that where competitive, merit-based selection processes are not used, the agencies should still have regard to the seven key principles of grants administration.

## **Department of Education, Employment and Workplace Relations**

51. DEEWR's response is at Appendix 1 to this audit report.

# Recommendations

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

## **Recommendation No. 1**

### **Paragraph 3.140**

ANAO recommends that, in administering grant programs that do not involve an open call for applications, the Department of Infrastructure and Transport develop, for consideration by the responsible Minister, an implementation strategy that clearly identifies the avenues through which candidate projects are able to be identified, and the department's role in this process.

**Infrastructure response:** Agreed.

## **Recommendation No. 2**

### **Paragraph 3.147**

ANAO recommends that the Department of Finance and Deregulation improve its existing guidance on grants administration so as to promote the effective application of the seven key principles outlined in the Commonwealth Grants Guidelines to all forms of granting, including where a grant program operates through a non-competitive and/or a non-applications-based process.

**Finance response:** Agreed.



## **Audit Findings**





# 1. Introduction

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*This chapter provides an overview of the Infrastructure Employment Projects (IEP) stream of the Jobs Fund as an economic stimulus measure introduced in response to the global financial crisis and sets out the audit approach and scope.*

## 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; Senator Steve Fielding, the then 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. In the course of those negotiations, the Government committed to implementing a range of measures. 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 elements:

- a \$300 million Local Jobs stream, which related to the delivery of commitments made to the Australian Greens;
- a \$200 million Get Communities Working stream, which related to the delivery of commitments made to Senator Fielding; and
- a \$150 million Infrastructure Employment Projects (IEP) stream.

**1.3** 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.<sup>38</sup> The Jobs Fund was also to give priority to: supporting and

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<sup>38</sup> See Table 2.1. See also paragraph 4.94 in respect to the end date for the IEP stream being extended.

creating jobs; building skills for the future; building sustainable infrastructure for the future; and new and existing social enterprises.

**1.4** The 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.

## The Jobs Fund

**1.5** The Jobs Fund was established as a two-year executive grant scheme to support and create jobs and skill development through projects that would build community infrastructure and social capital in local communities, with the aim of producing long-term improvements in communities affected by the economic downturn.<sup>40</sup> The program guidelines published at the commencement of the Jobs Fund in April 2009 stated that:

Projects will focus on directly generating jobs for people in communities with high unemployment, a rise in unemployment or vulnerability.<sup>41</sup>

**1.6** Funding was to be in the form of one-off grants to support the delivery of innovative social or infrastructure projects which created jobs and employment opportunities in communities affected by the economic downturn, while also delivering positive environmental, heritage and social outcomes.<sup>42</sup> As noted, the Jobs Fund was to consist of three principal funding streams, two of which included quarantined sub-streams, as follows:

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

<sup>40</sup> *Jobs Fund Guidelines*, 18 April 2009, p. 1.

<sup>41</sup> *ibid.*

<sup>42</sup> *ibid.*

- **Local Jobs stream:** A total of \$300 million over two years for community infrastructure projects with a focus on the promotion of environment-friendly technology and heritage. Of that funding, \$60 million was specifically set aside for heritage-related projects (broken down into a number of sub-components) and \$40 million was set aside for bike path projects;
- **Get Communities Working stream:** A total of \$200 million, the bulk of which was to be available over two years with grants of up to \$2 million for self-sustaining projects which created jobs and provided activities and services to improve community amenity. Funding of \$11 million under this stream was to be immediately available in 2008–09 to provide temporary financial assistance to non-profit organisations whose donor base was under pressure due to the economic downturn (known as the TFA component); and
- **IEP stream:** \$150 million to be available over two years for the construction of local infrastructure that would create immediate jobs in communities affected by the global recession.<sup>43</sup> Further in this respect, the Jobs Fund program guidelines stated that the IEP stream would support infrastructure projects in areas vulnerable to the impact of large scale losses of employment as a result of the economic downturn, or projects from areas suffering from other external shocks such as large scale fire or flood events. The guidelines further stated that:

The Infrastructure Employment Projects stream builds on the \$800 million Community Infrastructure Program announced by the Prime Minister on 18 November 2008 and 3 February 2009 to stimulate local economies in light of the economic downturn.

...Projects that will be considered for funding under this stream will target local community needs and will create jobs in construction, related industries and the general community.<sup>44</sup>

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<sup>43</sup> Joint Media Release, *Fund to support jobs, build skills and community infrastructure*, The Hon. Kevin Rudd MP Prime Minister, The Hon. Julia Gillard MP Minister for Education, Minister for Employment and Workplace Relations, Minister for Social Inclusion, Deputy Prime Minister and The Hon Brendan O'Connor MP Minister for Employment Participation, 5 April 2009.

<sup>44</sup> Jobs Fund Guidelines, 18 April 2009, p. 11. ANAO Audit Report No.3 2010–11, op. cit., examined the Strategic Projects component of the Regional and Local Communities Infrastructure Program (RLCIP). ANAO Audit Report No.42 2010–11, *The Establishment, Implementation and Administration of the Council Allocation Component of the Regional and Local Communities Infrastructure Program*, Canberra, 18 May 2011 examined the Council Allocation component of the RLCIP.

1.7 Infrastructure and construction-related projects were able to be considered for funding under all streams of the Jobs Fund, with the appropriate stream being dependant upon the nature of the project and its principal objectives. However, while the maximum grant available under the Local Jobs and Get Communities Working streams was \$2 million, there was no cap on individual project amounts that could be funded under the IEP stream.

1.8 The focus of this audit is the IEP stream of the Jobs Fund. Separate performance audits are underway that are examining the establishment, implementation and administration of the separate components of the Local Jobs stream of the Jobs Fund.

## Administering agencies

1.9 Administration of the Jobs Fund was shared between four agencies. The Department of Education, Employment and Workplace Relations (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. In June 2011, DEEWR commented to the Australian National Audit Office (ANAO) that:

In order that the audit of the Jobs Fund inform future public policy and program administration, it is important that the extraordinary circumstances which prevailed at the time of its conception and implementation are acknowledged. The onset of the global financial crisis in 2008 caused a severe loss of confidence around the world, resulting in a period of worldwide economic downturn and the prospect of rising unemployment not witnessed since the Great Depression of the 1930s. The Jobs Fund and the Jobs and Training Compact, central elements of the Australian Government's response to the global financial crisis, required extraordinarily rapid policy and program development and equally speedy implementation in a volatile political and economic climate.

1.10 Other administering agencies in respect to the Local Jobs and Get Communities Working streams were:

- the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) in respect to the assessment of TFA projects under the Get Communities Working stream;
- the then Department of the Environment, Water, Heritage and the Arts (DEWHA) which administered the quarantined heritage component of

the Local Jobs stream. Following the Administrative Arrangements Order of 14 September 2010, the department became the Department of Sustainability, Environment, Water, Population and Communities (DSEWPaC); and

- the then Department of Infrastructure, Transport, Regional Development and Local Government which administered the quarantined bike paths component of the Local Jobs stream.

**1.11** The published program guidelines outlined that the IEP stream would also principally be administered within the then Infrastructure, Transport, Regional Development and Local Government portfolio. In particular, the guidelines stated that the Department of Infrastructure, Transport, Regional Development and Local Government would assess projects that had been initiated by the Australian Government and make funding recommendations to the Minister for Infrastructure, Transport, Regional Development and Local Government (the Infrastructure Minister).<sup>45</sup>

**1.12** To support the administration of the IEP stream, the department developed a procedures manual to provide staff with information about the program, and to support the application of appropriate and consistent procedures and practices. Although the IEP stream commenced operation on 1 July 2009, the various sections of the procedures manual were progressively approved over the period January to June 2010.

**1.13** The Administrative Arrangements Order of 14 September 2010 created the Department of Regional Australia, Regional Development and Local Government (Regional Australia), with the Department of Infrastructure, Transport, Regional Development and Local Government becoming the Department of Infrastructure and Transport (Infrastructure). Amongst other things, Regional Australia deals with the delivery of regional and rural specific services, regional development and regional Australia policy and coordination. Initially, responsibility for administering the IEP stream of the Jobs Fund was moved to Regional Australia from Infrastructure, with the Minister for

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<sup>45</sup> Following the 2010 federal election, the Minister's portfolio responsibilities were revised, with the Minister becoming the Minister for Infrastructure and Transport. Throughout this report, the Minister is referred to as the Infrastructure Minister. The functions relating to regional development and local government (including the bike paths component of the Local Jobs stream of the Jobs Fund) became the responsibility of the Minister for Regional Australia, Regional Development and Local Government, with those functions being administered by the newly created Department of Regional Australia, Regional Development and Local Government within the Prime Minister and Cabinet portfolio.

Regional Australia, Regional Development and Local Government (Minister for Regional Australia) taking responsibility for funding decisions under the program. Responsibility for administering the bike paths component of the Local Jobs stream of the Jobs Fund was also moved to Regional Australia.

**1.14** On 28 October 2010, the Minister for Regional Australia and the Infrastructure Minister agreed that the Infrastructure Minister would resume responsibility for the IEP stream, with administration of the program being returned to Infrastructure with effect from the week commencing 1 November 2010. For the purposes of this report, the former Department of Infrastructure, Transport, Regional Development and Local Government and the current Department of Infrastructure and Transport are both referred to as 'Infrastructure'.

## Program funding

**1.15** Following announcement of the \$650 million Jobs Fund, it was decided that departmental costs to administer the respective elements of the program would be met from the total funding allocation. Of the \$150 million allocated to the IEP stream, \$5.8 million was set aside for Infrastructure's departmental administrative costs<sup>46</sup>, leaving \$144.2 million available for funding projects under that stream over two years to 30 June 2011.

**1.16** The program funding available for IEP stream projects was further reduced through the 2009–10 Additional Estimates process by \$11.5 million,

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<sup>46</sup> A further \$2 million was also set aside from the \$40 million bike paths component of the Local Jobs stream for Infrastructure's administrative costs. This combined allocation was significantly less than the \$18.7 million originally sought by Infrastructure to administer those two elements of the Jobs Fund. Analysis undertaken by Finance in agreeing the costings for the Jobs Fund was that, in aggregate, Infrastructure was receiving 4.1 per cent of the funding it was administering for administrative costs (a total of \$7.8 million). By way of comparison, the \$14.1 million DEEWR was receiving for administrative costs represented 3.5 per cent of the \$400 million in total funding originally allocated to the Jobs Fund components it was administering, and the then DEWHA was receiving 2.8 per cent (\$1.7 million) of total funding to administer the \$60 million heritage component of the Local Jobs stream. The funding provided to Infrastructure for administering the IEP stream was significantly more than that provided to the other departments when considered in terms of the volume of projects to be assessed and, for approved projects, managed. In June 2011, Infrastructure provided ANAO with data indicating that 10.4 Full Time Equivalent (FTE) staff had been employed on administering the IEP stream across 2009–10 and 2010–11, comprising 5.7 FTE in 2009–10 and 4.7 FTE in 2010–11.

from \$144.2 million to \$132.7 million over two years to 30 June 2011<sup>47</sup>, as a result of decisions taken to transfer:

- \$10 million to the North West and Northern Tasmania Innovation Investment Fund, administered within the Innovation, Industry, Science and Research portfolio; and
- \$1.5 million for the Victorian bushfires reconstruction and recovery, administered by FaHCSIA.

**1.17** In October 2010, the Minister for Regional Australia was advised by Regional Australia<sup>48</sup> that all but \$1.9 million of the funding available for projects under the IEP stream had been committed either to approved projects (\$82.4 million) or to projects approved 'in-principle' pending a full departmental assessment (\$48.4 million<sup>49</sup>). Accordingly, the Minister for Regional Australia was informed that there was limited capacity for any further projects to be considered for IEP stream funding. In the May 2011 Budget, the total funding allocated to the IEP stream for projects was reduced by a further \$1.9 million.

**1.18** In June 2011<sup>50</sup>, the Infrastructure Minister agreed to departmental recommendations that he:

- close the IEP stream to new projects not already approved or given in-principle agreement<sup>51</sup>;

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<sup>47</sup> This administered funding was appropriated partly to Infrastructure (\$91.2 million) and partly to the Department of the Treasury (\$41.5 million), which has made payments in relation to some projects funded through the IEP stream to and through the states under its National Partnership Payments to the States program (see further at paragraphs 5.8 to 5.24).

<sup>48</sup> As noted at paragraphs 1.13–1.14, responsibility for the IEP stream was allocated to the Minister for Regional Australia and his department for the period 14 September 2010 to 31 October 2010.

<sup>49</sup> This amount included amounts for two projects (the Cairns Cultural Precinct and the Essendon Sporting and Community Hub) for which the departmental assessment had not been completed, but for which the Government had announced funding commitments in July and August 2010 respectively in the context of the 2010 General election (see Media Release AA422/2010, *Gillard Labor Government to Invest in Cairns' Future*, 7 July 2010, The Hon Anthony Albanese MP Minister for Infrastructure, Transport, Regional Development and Local Government and Jim Turnour MP, Federal Member for Leichardt; and Media Release, *Investing in all-Access Essendon Sporting and Community Hub*, 8 August 2010, The Hon Jenny Macklin MP Minister for Families, Housing, Community Services and Indigenous Affairs and the Hon Bill Shorten MP Parliamentary Secretary for Disabilities and Children's Services).

<sup>50</sup> By this date, administration of the IEP stream had been returned to the Infrastructure portfolio (see paragraphs 1.13–1.14).

<sup>51</sup> See further at footnote 183 regarding 'in-principle' agreements.



- seek to establish a new administered item with the \$2.4 million in unallocated funds to support the last project initiated for IEP stream funding in May 2011<sup>52</sup> (in that circumstance the project would no longer be assessed against the Jobs Fund guidelines in deciding whether to approve the spending of public money); and
- note that the remaining two potential IEP stream projects with an aggregate value of \$46 million, which had been initiated for IEP stream funding consideration in April and May 2010 respectively, could in the future be similarly removed from consideration under the IEP stream (given IEP stream funding was to end on 30 June 2012) and progressed as separate administered items. As noted at footnote 49, funding commitments in relation to these two projects were announced in August and July 2010 respectively. In September 2011, Infrastructure advised ANAO that these matters were still under consideration by government in relation to both projects, with a decision yet to be made.

## Audit objective, scope and criteria

**1.19** The objective of this audit was to assess the efficiency and effectiveness of the establishment, implementation and administration of the IEP 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 scope included:

- examination of the circumstances relating to the 19 instances where a project was initiated for funding consideration under the IEP stream (see Table 1.1); and
- the assessment against the program guidelines that was undertaken in respect to each of these projects, the related decision-making processes and the administration of funding for 12 approved projects.

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<sup>52</sup> The Infrastructure Minister wrote to the Prime Minister on 23 June 2011 seeking the Prime Minister's approval to fund the relevant project from funds within the Minister's portfolio and to create a new administered item within the Minister's portfolio to facilitate this, to be offset by savings from the IEP stream of the Jobs Fund.



**Table 1.1****Projects initiated for possible IEP stream funding and their status as at 30 June 2011**

Project ID	Project Name	Proponent	Funding considered \$m	Approval status at 30 June 2011	Physical status at 30 June 2011
IEP001	Queensland Symphony Orchestra Co-Location	Arts Queensland & Department of Premier and Cabinet	9.00	Approved 19 Oct 2009	Under construction
IEP002	MA Noble Stand Redevelopment	Sydney Cricket and Sports Ground Trust	40.00	Project not being further considered	Not applicable
IEP003	Rugby League Central	Australian Rugby League and National Rugby League	10.40	Approved 12 July 2010	Under construction
IEP004	Fitzgerald River National Park Road Upgrade and Walk Trail	Department of Premier and Cabinet, Western Australia	20.00	Approved 10 Dec 2009	Under construction
IEP005	Three Capes Walk-Multiday Walking Track with Accommodation	Tasmanian Department of Environment, Parks, Heritage & Arts	12.50	Approved 25 Feb 2010	Under construction
IEP006	The Wayside Chapel Redevelopment	The Uniting Church of Australia	3.30	Approved 21 Dec 2009	Construction completed
IEP007	Mount Panorama Phase 2 Redevelopment	Bathurst Regional Council	4.00	Project not being further considered	Not applicable
IEP008	Gladstone Airport Terminal Upgrade	Gladstone Regional Council	5.50	Approved 16 Feb 2010	Construction completed
IEP009	MCA Redevelopment and Creation of a National Centre for Creative Learning	Museum of Contemporary Art	13.00	Approved 27 Apr 2010	Under construction
IEP010	Wilcannia Business Hub	Central Darling Shire Council	2.40	Proponent advised that bid for funding was unsuccessful	Not applicable

Project ID	Project Name	Proponent	Funding considered \$m	Approval status at 30 June 2011	Physical status at 30 June 2011
IEP011	Cairns Cultural Precinct	Cairns Regional Council	40.00	Under assessment	Not applicable
IEP012	Wandong Memorial Stadium	Mitchell Shire Council	2.25	Approved 15 July 2010	Construction yet to commence
IEP013	Community Camping and Day Visitor Sites Upgrade	Kangaroo Island Council	2.63	Approved 23 June 2010	Construction completed
IEP014	Domain Tennis Centre Upgrade	Hobart City Council	1.20	Approved 5 Jul 2010	Construction completed
IEP015	Essendon Sporting and Community Hub	Essendon Football Club	6.00	Under assessment	Not applicable
IEP016	Mackay Multi-Use Stadium	Stadium Mackay Pty Ltd	2.50	Approved 14 Jul 2010	Construction underway
IEP017	Sapper Jacob Moerland Memorial Skate Park	North Burnett Regional Council	0.39	Approved 14 Jul 2010	Construction underway
IEP018	Adelaide City Women's Football Club Clubrooms	Adelaide City Council	0.12	Project not being further considered	Not applicable
Nil	Cloncurry Community Precinct	Cloncurry Shire Council	2.50	IEP stream funding not approved. Project and funding to be excised from the IEP stream.	Not applicable

Source: ANAO analysis of Infrastructure data.

**1.20** In relation to the design of the IEP stream as an economic stimulus and employment support measure, the audit examined the procedures and advice used to establish the stream as an appropriate vehicle through which to achieve the stated objectives. In relation to the implementation and administration of the IEP stream, the audit examined the procedures used for identifying, assessing and approving candidate projects; administering the delivery of works (both physical and financial); and measuring and/or assessing the quality of program delivery and achievement of the stated objectives.

**1.21** The audit objective was met through analysis of 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 Commonwealth Grant Guidelines (CGGs).<sup>54</sup>

**1.22** Particular emphasis was given to examining whether the IEP 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;

<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* provides a framework for the proper management of public money and public property. This framework 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.

<sup>54</sup> The seven key principles for grants administration established by the Australian Government, as outlined in the CGGs, 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 IEP stream of the Jobs Fund. As no projects were initiated for IEP stream funding consideration until July 2009, the full enhanced grants administration framework has applied to the implementation of the IEP stream.

- the business practices of Infrastructure and other relevant departments have 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 identified, assessed and approved for funding in accordance with the principles outlined in the CGGs, as well as the 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.

**1.23** Given the various agencies involved in the establishment of the program, 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 \$390 000.

## Report Structure

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

Chapter	Chapter Overview
2. Program establishment	<i>Examines the genesis of the IEP stream of the Jobs Fund, and the key design features of this grant program.</i>
3. Project initiation	<i>Examines the processes by which potential candidates for IEP stream funding were identified.</i>
4. Project assessments and approvals	<i>Examines the assessment and approval processes undertaken in respect to the 19 projects formally considered for possible IEP stream funding.</i>
5. Program outcomes	<i>Examines the administration of approved projects and progress that has been made in delivering economic stimulus through the IEP stream of the Jobs Fund.</i>

## 2. Program establishment

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*This chapter examines the genesis of the IEP stream of the Jobs Fund, and the key design features of this grant program.*

### Genesis of the IEP stream of the Jobs Fund

**2.1** The Jobs Fund was established in April 2009 as an element of the Government's response to the global financial crisis. The 2009–10 Budget Papers outlined that the Jobs Fund was to be focused on delivering employment outcomes and would support jobs and skill development (through projects that build community infrastructure and social capital in local communities).<sup>55</sup> The Budget Papers further outlined that the grants to be awarded under the Jobs Fund would be focused on assisting those communities most affected by the economic downturn.<sup>56</sup> In this respect, the Budget Papers stated that the IEP stream would:

support infrastructure projects that target local community needs and create jobs in construction, related industries and the general community in areas that are vulnerable to the impact of large scale losses of employment as a result of the economic downturn.<sup>57</sup>

**2.2** This objective of generating employment outcomes in areas particularly affected by the economic downturn through the delivery of community infrastructure projects reflects the context in which the Jobs Fund in general, and the IEP stream in particular, were developed.

### Priority employment area measures

**2.3** In late January 2009, shortly before the announcement of the Nation Building and Jobs Plan, the SPBC agreed to two linked measures as part of its developing response to the global financial crisis. These measures related to the identification of, and quick intervention in, regions of rising unemployment (to be known as Priority Employment Areas) in order to

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<sup>55</sup> Budget Paper No. 2 2009–10, *Budget Measures*, Circulated by the Honourable Wayne Swan MP Treasurer of the Commonwealth of Australia and the Honourable Lindsay Tanner MP Minister for Finance and Deregulation of the Commonwealth of Australia for the Information of Honourable Members on the Occasion of the Budget 2009–10, 12 May 2009, p. 172.

<sup>56</sup> *ibid.*

<sup>57</sup> *ibid.*, p. 173.

stimulate employment and encourage up-skilling and economic participation to improve the long term economic security of the areas. The measures involved:

- \$20 million over two years to June 2011 for the engagement, through DEEWR, of up to 20 Priority Area Employment Directors to promote a rapid response to emerging unemployment pressures in the worst affected areas; and
- an associated \$250 million, two year Priority Area Infrastructure Fund (PAIF). The intention was that the PAIF would be a flexible fund to support projects in areas where:
  - large scale losses of employment had occurred or were anticipated;
  - deployment of the Fund would support economic and social adjustment; and
  - a project was capable of generating further employment and long term social and economic opportunities in the area.

**2.4** The SPBC noted the linkages between the two measures and agreed that further work be undertaken as soon as possible to identify those regions most vulnerable to rapid increases in unemployment as a result of the global economic downturn. It was proposed that up to 20 priority regions eligible for support under the PAIF would be established, with regions to be defined as a Local Government Area (LGA) or group of LGAs. Project funding would support the region in general or specific areas depending on the agreed priorities of the region.

**2.5** It was proposed that Priority Regional Action Plans prepared through DEEWR's Priority Area Employment Directors, in consultation with Infrastructure, local councils, state government and other stakeholders, would link projects designed to stimulate local economies and job creation with funding under the PAIF. The Minister for Education, Employment and Workplace Relations and the Infrastructure Minister, and their departments, were to be jointly responsible for the oversight and management of the linked programs, with a priority list of infrastructure projects for each region to be submitted to a joint departmental steering committee for assessment.

## Integration of the PAIF with other jobs-related funds

**2.6** In March 2009, the structure of the PAIF was revisited by the Government, including consideration of how the already agreed infrastructure fund would interact with the delivery of the agreements made in February 2009 with the Australian Greens and then Family First Senator Steve Fielding in the context of securing passage of the bills relating to the \$42 billion economic stimulus package (see paragraph 1.2). As a result, the SPBC decided that the PAIF would form one part of an integrated employment fund with three elements—the Jobs Fund. The infrastructure element was renamed as the Infrastructure Employment Projects stream of the Jobs Fund and the amount of funding available under that stream was reduced to \$150 million over two years.

**2.7** On 20 March 2009, DEEWR advised Infrastructure that it had been determined that the Jobs Fund would go ahead with a common set of criteria for each of the streams, with the criteria to be settled at departmental level. The program guidelines were then to be agreed by the Expenditure Review Committee (ERC) of Cabinet.

**2.8** Guidelines for the Jobs Fund were drafted by DEEWR over the following weeks in consultation with Infrastructure (which was to administer the IEP stream and the quarantined bike paths component of the Local Jobs stream); the then DEWHA (which was to administer the quarantined heritage component of the Local Jobs stream); FaHCSIA (which was to be involved in the TFA component of the Get Communities Working stream); and the Department of the Prime Minister and Cabinet (PM&C). Consultation also occurred between the Offices of the Prime Minister and the responsible Ministers.

**2.9** However, there was uncertainty about how the two streams that were to be administered by Infrastructure would relate to the other elements of the integrated Jobs Fund. In particular, the guidelines as initially drafted provided that:

- the Jobs Fund would have a common set of gateway criteria which provided that, in order to be considered for funding under any of the three streams, projects would be required to be:
  - in areas experiencing high unemployment, a significant rise in unemployment or vulnerability;

- viable and ready to start; and
- self-sufficient and/or not require Australian Government funding beyond 30 June 2011;
- the Australian Government would initiate and fund Infrastructure Employment Projects and, where Priority Area Employment Coordinators (PAEC—originally known as Priority Area Employment Directors (see paragraph 2.3)) were operating, proposals may be recommended by the PAECs to respond to emerging local priorities. PAECs were subsequently renamed Local Employment Coordinators (LECs), as reflected in the then Prime Minister’s announcement of the measure on 5 April 2009<sup>58</sup>; and
- where predominantly infrastructure-related project proposals met the gateway criteria and exceeded \$2 million (the maximum grant available under the non-IEP streams of the Jobs Fund), they would be directed to Infrastructure for assessment under the IEP stream.

**2.10** On 2 April 2009, the Office of the Infrastructure Minister advised Infrastructure that it had advised the then Prime Minister’s Office and PM&C that, based on discussions held by Ministers, it considered that:

- the IEP stream should not be considered under the gateway criteria; and
- all projects under that stream should be initiated by Government to allow it to pick projects from unfunded applications to the Regional and Local Community Infrastructure Program (RLCIP)<sup>59</sup> or projects not

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<sup>58</sup> Media Release, *New local employment co-ordinators to help support jobs in disadvantaged regions*, The Hon Kevin Rudd MP, Prime Minister, 5 April 2009.

<sup>59</sup> The RLCIP was announced by the then Prime Minister on 18 November 2008, and expanded on 3 February 2009, to stimulate local economies in light of the economic downturn. It had been envisaged that applications to the Strategic Projects component of the RLCIP would provide a source of ‘ready-to-go’ projects that could be considered for funding under the \$250 million Priority Area Infrastructure Fund approved by the SPBC on 28 January 2009 (see paragraphs 2.3–2.5), which then became the IEP stream of the Jobs Fund (see paragraph 2.6). The use of applications to that significantly over-subscribed economic stimulus program as a source of potential funding recipients under the IEP stream of the Jobs Fund is discussed further in Chapter 3 of this audit report (see paragraphs 3.24 to 3.79).



funded following the Infrastructure Australia prioritisation process<sup>60</sup>, and move to implementation quickly.

**2.11** A briefing note prepared by DEEWR for a meeting between its Secretary and the then Prime Minister scheduled for 14 April 2009 advised that, while it had reached general consensus with the then DEWHA on the draft Jobs Fund guidelines:

[*Infrastructure*] have not approved the following issues based on discussions with their Minister's Office:

- The guidelines currently indicate that while the Australian Government will initiate and fund Infrastructure Employment Projects, proponents must still satisfy the gateway criteria to be eligible for funding. [*Infrastructure*] have indicated that given that the Australian Government will initiate these projects, this stream lies outside the gateway criteria and that proponents are not required to comply with this to receive funding...
- [*Infrastructure*] have indicated that the Australian Government should also initiate projects under the \$40 million Bike Paths component of the Local Jobs stream, implying that this component will also be excluded (*sic*) from the gateway criteria. Given that this is an integrated fund, this is not our understanding of how this component operates. As such, we have not made this amendment.
- [*Infrastructure*] have indicated that Local Employment Coordinators (LECs) will not have any involvement with the Infrastructure Employment Projects stream. This amendment was not taken up based on the Prime Minister's [5 April 2009] announcement of the Jobs Fund and email correspondence with the [*Prime Minister's Office*] which indicate that LECs will be involved in identifying emerging local priorities for funding under the Infrastructure Employment Projects stream.

**2.12** On 15 April 2009, Infrastructure advised DEEWR that the reference in the draft guidelines to infrastructure project proposals over \$2 million being

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<sup>60</sup> Infrastructure Australia was established to improve the quality of infrastructure planning and investment strategy, and to identify those investments expected to make the biggest impact on Australia's economic, social and environmental goals for least cost to the taxpayer (see further in ANAO Audit Report No. 2 2010–11, *Conduct by Infrastructure Australia of the First National Infrastructure Audit and Development of the Infrastructure Priority List*, Canberra, 23 July 2010). As at March 2011, Infrastructure Australia had produced two infrastructure priority lists—the first in May 2009 and the second in June 2010.

directed to Infrastructure for assessment under the IEP stream should be removed on the basis that this was inconsistent with the Government initiating IEP projects.

**2.13** Under the final version of the guidelines prepared for the then Prime Minister's approval<sup>61</sup> on 15 April 2009:

- all proposals were required to meet the common gateway criteria in order to be considered for funding under any stream of the Jobs Fund, including both the IEP stream and the bike paths component of the Local Jobs stream;
- the reference to Local Employment Coordinator involvement in the IEP stream was retained, with the slight amendment that LECs would be able to submit IEP proposals to respond to emerging local priorities, rather than being able to recommend IEP proposals (as had previously been proposed); and
- the reference to predominantly infrastructure-related project proposals which met the gateway criteria and sought more than \$2 million in funding being directed to Infrastructure for assessment under the IEP stream was deleted and replaced with the provision that:

Infrastructure Employment Projects initiated by the Australian government will comply with the gateway criteria and will be referred by Infrastructure to the Joint Committee for their consideration and advice.<sup>62</sup>

## Priority Employment Areas

**2.14** As noted, the Jobs Fund was one of two major initiatives under the 'local communities' element of the Government's Jobs and Training Compact announced in April 2009 (see paragraph 1.4). The other major initiative was the

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<sup>61</sup> In this respect, the briefing note prepared by DEEWR for its Secretary's meeting with the then Prime Minister scheduled for 14 April 2009 (see paragraph 2.11) advised the Secretary that: 'The Finance Minister's Instructions (16 January 2009) state that guidelines for any new discretionary grants program must be considered by the Expenditure Review Committee (ERC). This encompasses the Jobs Fund. As the next ERC meeting with availability is not until 2 June 2009, the guidelines were going to be submitted for the Budget Cabinet meeting on 24 April 2009. However, based on the Prime Minister's announcement to have Local Employment Coordinators in place by May 2009, it is now proposed that the guidelines be submitted to the Prime Minister for clearance on 14 April 2009.'

<sup>62</sup> The program guidelines provided that the Joint Committee would comprise staff from the four administering departments (see further at paragraphs 2.51 to 2.54).

engagement of LECs in nominated Priority Employment Areas. By March 2009, DEEWR had identified 20 regions as potential Priority Employment Areas.

**2.15** The first seven Priority Employment Areas in which LECs were to operate<sup>63</sup> were announced by the then Prime Minister on 5 April 2009, in conjunction with the announcement of the Jobs and Training Compact and the Jobs Fund.<sup>64</sup> Subsequently, in the context of the subdued labour market conditions that were prevailing in the Richmond-Tweed and Mid-North Coast areas of New South Wales, a further two Priority Employment Areas were announced on 28 May 2009.<sup>65</sup>

**2.16** On 17 June 2009, the then Minister for Education, Employment and Workplace Relations agreed to the establishment of a further 11 Priority Employment Areas.<sup>66</sup> In this respect, the then Minister advised the then Prime Minister that she had asked her department to update its original analysis in order to determine the next 11 Priority Areas experiencing pronounced labour market disadvantage. The establishment of the remaining 11 Priority Employment Areas was announced on 8 July 2009. Figure 2.1 outlines the location of the 20 Priority Employment Areas agreed by government. They

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<sup>63</sup> Namely: Canterbury-Bankstown and South Western Sydney; Illawarra; South Eastern Melbourne; Ipswich-Logan; Northern and Western Adelaide; South West Perth; and Northern Tasmania.

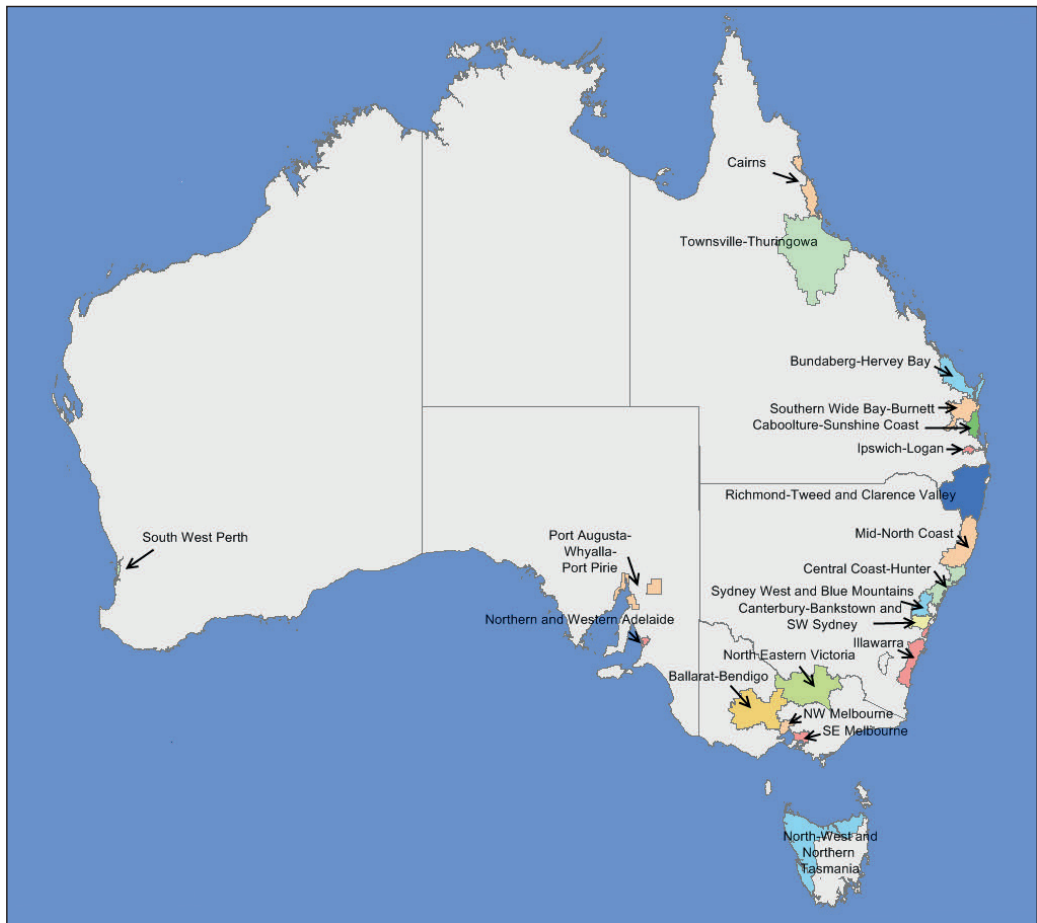
<sup>64</sup> Media Release, *New local employment co-ordinators to help support jobs in disadvantaged regions*, op. cit.

<sup>65</sup> Namely: Richmond-Tweed and Clarence Valley; and Mid-North Coast of New South Wales. See DEEWR, Submission to the House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government's inquiry into the impact of the Global Financial Crisis on regional Australia, November 2009, p. 8.

<sup>66</sup> The interim Keep Australia Working report, released on 8 July 2009, also recommended that a further 11 Priority Employment Areas be established as they met the same criteria as the first nine areas that had been targeted. The report advised that the areas listed had been selected following analysis of local labour markets most vulnerable to the effects of the global recession and needed additional resources to help them tackle unemployment and develop rapid responses to the region's needs (*Keep Australia Working Interim Report*, Senator Mark Arbib Minister for Employment Participation and Mr Jason Clare MP Parliamentary Secretary for Employment, July 2009, pp. 18–19). The Keep Australia Working initiative arose from a request on 14 June 2009 by the then Deputy Prime Minister that the then Minister for Employment Participation and then Parliamentary Secretary for Employment develop a whole of government strategy to build on existing initiatives to support Australian jobs. An interdepartmental committee (IDC), chaired by DEEWR, was established to provide advice and recommendations, with the final report being submitted to the then Deputy Prime Minister in October 2009 (see further at paragraphs 2.55 to 2.58).

encapsulate all or part of the area of 135 Local Government Authorities and 80 of the 150 Federal electorates.<sup>67</sup>

**Figure 2.1**  
**Location of Priority Employment Areas**



Source: Department of Education, Employment and Workplace Relations.

**2.17** The methodology used by DEEWR to identify the 20 Priority Employment Areas involved analysis of 25 labour market indicators. The approach taken reflected the department’s perspective that no one factor (when taken in isolation) could determine whether a region was likely to

<sup>67</sup> At the time the Priority Employment Areas were announced, 52 of the affected Federal electorates were held by the Australian Labor Party, 25 by one of the Coalition parties and three by an Independent Member of Parliament.

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 the following five characteristics and/or criteria which were seen as ‘powerful determinants’ of future labour market performance:

- high unemployment rate and/or poor employment growth/participation rates;
- significant increases in the number of unemployment beneficiaries since the onset of the global financial crisis and those considered to be at risk of employment losses and increases in unemployment as the slowdown took full effect;
- poor educational attainment levels/low skills;
- a high proportion of the population in receipt of Centrelink benefits; and
- a concentration of industries (such as manufacturing) that were considered likely to exhibit or were exhibiting a significant decrease in employment.

**2.18** This approach reflected the policy rationale behind the selection of the Priority Employment Areas which DEEWR advised the then Minister for Employment Participation in November 2009 was to identify and provide assistance to those regions with labour markets which were likely to experience labour market disadvantage and deterioration as a result of the global recession. The department further advised the Minister that:

During the developmental stages of the Priority Areas development discussion with the then Minister for Employment Participation decided (*sic*) that areas of entrenched disadvantage (i.e. those disadvantaged prior to the Global Recession)...are better addressed through other programs and as such the methodology for identifying priority areas would target regions at risk of labour market deterioration due to the Global Recession.

**2.19** In June 2011, DEEWR advised ANAO 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.

## Published Jobs Fund program guidelines

**2.20** In respect to the program guidelines, DEEWR commented to ANAO in June 2011 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** Although the three principal streams of the Jobs Fund each had their own particular focus<sup>68</sup>, 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. This was reflected in one set of guidelines initially being developed encapsulating all three funding streams. The program guidelines publicly released on 18 April 2009 for the first call for applications to the Jobs Fund identified the common program objective as follows:

The Jobs Fund will support and create jobs and skill development through projects that build community infrastructure and social capital in local communities.

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<sup>68</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.

Through the Jobs Fund the Government will invest in one-off capital projects and provide seed funding for social enterprises. The Jobs Fund is a temporary resource. The aim of the Jobs Fund is to produce long-term improvements in communities affected by the economic downturn.

**2.22** As is reflected in the CCGs, an important function of program guidelines is to clearly articulate the application, assessment and approval processes that are to be applied in selecting funding recipients that will best achieve the stated objectives of the relevant grant program.<sup>69</sup> Well structured guidelines not only assist in ensuring a focus on maximising achieved outcomes and value for money, but also help to manage public expectations in relation to the program.<sup>70</sup> However, there were various aspects of the published Jobs Fund guidelines that did not provide clear guidance in this respect, including in relation to the operation of the IEP stream.<sup>71</sup>

## Program criteria

**2.23** As outlined in ANAO's Better Practice Guide on the administration of grants, selection criteria form the key link between a program's stated objectives and the outcomes that are subsequently achieved from the funding provided.<sup>72</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

<sup>69</sup> Commonwealth Grant Guidelines, op. cit., pp. 22–23.

<sup>70</sup> ANAO Better Practice Guide, *Implementing Better Practice Grants Administration*, Canberra, June 2010, pp. 52–67.

<sup>71</sup> The original Jobs Fund guidelines published in April 2009 applied to all streams. Revised, separate guidelines were published in November 2009 for Round 2 of the Local Jobs and Get Communities Working streams respectively, but the originally published guidelines continue to apply in relation to the IEP stream. The revised guidelines issued for Round 2 of the Local Jobs and Get Communities Working streams are not considered in this report, but will be examined in the separate performance audit underway of the general component of the Local Jobs stream.

<sup>72</sup> ANAO Better Practice Guide, op. cit., pp. 61–62.



program objectives and, for competitive programs, other competing applications.<sup>73</sup>

### *Jobs Fund threshold criteria*

**2.24** The original Jobs Fund guidelines identified a common set of threshold criteria which all projects were required to meet in order to be considered for funding under any of the three streams. The common criteria had an economic stimulus and employment support focus (in terms of both the location and timeframe of projects). The threshold requirements comprised nominated target areas and gateway criteria.

**2.25** The published guidelines included a section titled 'Project eligibility'. It outlined that a project needed to meet at least one of four target areas in order to be eligible to be considered for funding under the Jobs Fund, including the IEP stream. Specifically, the guidelines stated that:

Projects which will be considered for funding under the Jobs Fund must address at least one of the following four target areas:

- A. create jobs or retain people in jobs at risk due to the downturn;
- B. build skills for the future;
- C. build community infrastructure or improve community amenity which generates local jobs; or
- D. provide seed funding for social enterprises to start up, maintain or expand services, generating jobs and improving community services.

**2.26** The guidelines did not identify whether any of the target areas would be preferred, either in general or under particular streams or components of the Jobs Fund. Nor was there any indication given as to whether a proposal that addressed more than one of the four target areas would be preferred over a proposal that only addressed one target area.

**2.27** Additional eligibility criteria were set out in various sections of the guidelines, including that:

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

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<sup>73</sup> *ibid.*



- funding was not available retrospectively;
- funding would not be provided for projects where there were other sources of Commonwealth funding readily available or for reimbursement of services/activities that were already funded through other sources of Government funding; and
- funding would not be provided for activities that breached occupational health and safety or public safety.

**2.28** Specific eligibility criteria were also identified for funding consideration under the quarantined bike path and heritage components of the Local Jobs stream and for the IEP stream. In the case of the IEP stream, the guidelines specified:

- the project activities and costs for which IEP funding could, and could not, be used; and
- that the majority of the funding must be used for construction.

**2.29** Separately, the guidelines included a section titled 'gateway criteria'. In this respect, the guidelines outlined that:

The Jobs Fund will have a common set of gateway criteria which must be met for funding under any of the three streams:

1. Projects in areas experiencing high unemployment, a significant rise in unemployment or vulnerability.
2. Projects must be viable and ready to start.
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.

**2.30** The gateway criteria were based upon, but differed slightly from, criteria stipulated by the SPBC in agreeing to establish the \$650 million Jobs Fund as an element of its economic stimulus package (see Table 2.1).

**Table 2.1****Establishment of common gateway criteria for the Jobs Fund**

Jobs Fund criteria agreed by SPBC	Gateway criteria included in published guidelines
Be targeted to areas of high unemployment.	1. Projects in areas experiencing high unemployment, a significant rise in unemployment or vulnerability.
Be targeted to projects that are ready to start immediately.	2. Projects must be viable and ready to start. <sup>1</sup>
Operate for two years only, from 1 July 2009 to 30 June 2011.	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.
Note 1: In this respect, the program guidelines further stated that: 'Eligible projects must be 'ready-to-start' within six months of signing the Funding Agreement (contract). Where projects involve construction, construction must commence within the six month timeframe.'	

Source: ANAO analysis of Jobs Fund Guidelines, April 2009 and departmental records.

**2.31** Despite the apparent policy linkages, the Jobs Fund guidelines 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. Instead, as illustrated in Table 2.1, the guidelines included the broader provision that projects be in areas experiencing high unemployment, a significant rise in unemployment or vulnerability, and made no reference to Priority Employment Areas. In September 2011, DEEWR advised ANAO that:

The rationale for adopting this approach was a government decision (as reflected in cabinet documents and subsequently in the gateway criteria). This allowed for disadvantaged regions that were not in PEAs to be eligible for

funding. It was also in recognition of the staged rollout of PEAs—at the time the Jobs Fund guidelines were issued only 7 of the PEAs had been identified.<sup>74</sup>

**2.32** Both the target areas and gateway criteria set out in the program guidelines provided threshold requirements that projects would be required to satisfy in order to be considered for funding. The guidelines also included a section titled ‘Assessment criteria’. However, rather than identifying the criteria that would be applied in selecting between those proposals that met the threshold requirements, this section set out the information an applicant should include in their proposal in order to address each of the three threshold gateway criteria. In this context, application of the published gateway criteria and target areas alone was insufficient to enable an assessment of the overall merit of proposals to be undertaken.<sup>75</sup>

<sup>74</sup> In this respect, ANAO notes that allowing projects that are not located in a Priority Employment Area to be eligible for funding is a different matter to whether projects that are located in those Areas will, nevertheless, be preferred for funding. ANAO further notes that, despite this not reflecting the published program guidelines (see paragraph 2.31), the Jobs Fund Frequently Asked Questions document issued by DEEWR stated that: ‘Preference will be given to the priority areas, but Jobs Fund proposals are not limited to these areas.’ In assessing applications to the first round of the Local Jobs and Get Communities Working streams, DEEWR assessed all applications regardless of whether they were located in a Priority Employment Area. However, in selecting projects for funding, DEEWR initially prioritised projects located in Priority Employment Areas such that the available funding under the first call was exhausted by approved projects in those Areas. As outlined further at paragraph 3.116, following discussions, rather than agreeing with DEEWR’s recommendation that a further \$20 million be allocated for quality projects from outside the Priority Employment Areas prior to the second call for proposals, the then Minister for Employment Participation agreed to making up to an additional \$40 million in funding available under Round 1 for projects located both in Priority Employment Areas and non-Priority Employment Areas. This issue will be examined further in the current audit of the establishment, implementation and administration of the general component of the Local Jobs stream.

<sup>75</sup> This was illustrated, for example, by the approach taken by DEEWR in assessing applications to the first round of the Local Jobs and Get Communities Working streams. Each application was scored on a scale of zero to five against each of the three gateway criteria (a potential total score of 15), with projects needing to score at least three against each criterion (a total score of nine) in order to be eligible for funding consideration. Projects were also scored on a scale of zero to three on the extent to which they met each of the four target areas, with projects needing to score at least two to be considered to have met a target area—while the maximum total target area score was 12, projects were only required to meet at least one target area to be considered for funding. The moderated assessments were then presented to the Assessment Review Committee (ARC) that was responsible for forming funding recommendations for consideration by the departmental delegate. It is evident from the outcomes of that process that the ARC had concluded that this assessment of applications against the published gateway criteria and target areas was insufficient to enable a comprehensive assessment of the relative merit of proposals to be undertaken. Following the ARC process, which incorporated consideration of applications’ scores against the gateway criteria and target areas, as well as other factors considered relevant to each application’s overall merit and value for money:

- 14 projects that had scored a total of either 13 or 14 out of 15 against the three gateway criteria (meaning they had been assessed as strong or very strong against one or more of the criteria) were, nevertheless, not recommended for funding, primarily due to a conclusion regarding each application’s respective overall merit (the total target area scores for those projects ranged between four and 12); whereas

Footnote continued on the next page...

**2.33** In this respect, the guidelines stated that preference would be given within each of the four target areas to projects which demonstrated one or more of 13 listed characteristics (see Table 2.2). However, 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. Nor did the guidelines otherwise clearly articulate the assessment criteria that would be applied in selecting which of the compliant and eligible proposals would receive funding under either the competitive elements of the Jobs Fund or the non-competitive IEP stream.

**Table 2.2**

**Preferred project characteristics listed in Round 1 Jobs Fund guidelines**

Within each of these four target areas preference will be given to projects which demonstrate one or more of the following:

- are ready-to-start immediately
- support, create or retain jobs
- assist a greater number of disadvantaged job seekers including Indigenous job seekers and have a greater likelihood of achieving outcomes for those jobs seekers
- are in locations that have entrenched disadvantage or are vulnerable to the economic downturn
- involve place-based initiatives which strengthen the community
- provide job seekers with additional skills through training which maintains a connection with the labour market or develops connections to the community
- assist apprentices/trainees who have been made redundant to complete their apprenticeships
- have the potential to be sustainable and provide long-term employment opportunities for job seekers in areas of high unemployment
- provide jobs for local businesses and communities and provide opportunities for youth, while also delivering positive environmental, heritage and social outcomes
- involve well negotiated partnerships with employment services providers, local community organisations and relevant stakeholders needed to assist job seekers
- demonstrate stakeholder consultation and work with the local community in designing and running projects
- include a contribution of funds, or in kind contributions to supplement the amount sought in the project proposal
- revitalise or create new infrastructure assets for community needs or have the potential to contribute to economically viable regions.

Source: Jobs Fund Guidelines, 18 April 2009, p. 3.

- 97 projects that had scored a total of either 9 or 10 out of 15 against the three gateway criteria (meaning they were assessed as suitable/adequate only against all or most of the criteria) were recommended for funding based on the ARC's consideration of their respective overall merits (the total target area scores for those projects ranged between four and 11).

See also discussion at paragraphs 4.56–4.57. These issues will be examined further in the separate audit currently underway of the establishment, implementation and administration of the non-quarantined component of the Local Jobs stream of the Jobs Fund.

### *Value for money considerations*

**2.34** 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>76</sup> In respect to the assessment of value for money, 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.<sup>77</sup>

**2.35** 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 sections identifying the gateway criteria and target areas that proposals were required to satisfy. The due diligence and risk assessment 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, 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

<sup>76</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).

<sup>77</sup> As noted, the guidelines issued in April 2009 for Round 1 of the Jobs Fund remain the extant guidelines for the IEP stream of the Jobs Fund.

- 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>78</sup>

**2.36** While the particular measures that are applicable will vary depending upon the type of project being proposed, a value for money assessment of a proposal based on consideration of the outcomes proposed for the amount of funding being sought is an important consideration in determining grant funding recipients. However, 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, separate from and additional to the assessment of proposals against the threshold target areas and gateway criteria. This is particularly the case in light of the May 2011 DEEWR advice to ANAO that consideration of value for money was expected to underpin the entire assessment process. More clearly identifying the overarching requirement for proposals to demonstrate value for money, including in comparison to other proposals as relevant, as the key assessment criterion to be applied in selecting funding recipients from among compliant proposals is likely to have been of assistance in promoting greater consistency and clarity in the selection and approval processes applied in relation to the various streams of the Jobs Fund.

**2.37** This issue is discussed further in relation to assessments under the IEP stream in Chapter 4 of this report (see paragraphs 4.49 to 4.60), and will be examined in more detail in relation to assessing the relative merits of competing, eligible applications in the separate performance audits underway of the separate components of the competitive Local Jobs stream of the Jobs Fund.

## **Submission of proposals**

**2.38** 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 the Minister's announcement advising that applications would close on

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<sup>78</sup> The suggested wording for this provision was supplied to DEEWR by Infrastructure on 30 March 2009 for inclusion in the common Jobs Fund guidelines.

22 May 2009.<sup>79</sup> This closing date for applications was also included in newspaper advertising for the application round. However, the program guidelines also published on 18 April 2009 provided inconsistent advice on the timeframe for submitting proposals. The guidelines made no reference to the 22 May 2009 closing date or to the conduct of closed funding rounds. Nor did the guidelines clearly identify whether the call for proposals also related to infrastructure projects being proposed for IEP stream funding. Instead, the guidelines contained the following generic advice:

#### 4.2 Timeframe for submitting proposals

Funding for projects under each of the three streams will commence from 1 July 2009, with the exception of the first \$6 million of funding from the heritage component and \$11 million of funding for Temporary Financial Assistance, which will commence prior to 1 July 2009. The Australian Government will seek submissions for projects from May 2009. From 1 July 2009, proponents may submit proposals at any time.

**2.39** Elsewhere, the guidelines stated as follows in relation to IEP funding proposals:

#### 2.2 Proposals

The development of proposals by proponents will be an iterative process where the Departments will work with proponents where necessary to refine promising proposals.

The Australian Government will initiate and fund Infrastructure Employment Projects and, where Local Employment Coordinators (LECs) are operating, proposals may be submitted by the LECs to respond to emerging local priorities.

Urgent infrastructure project proposals relating to external shock events (such as bushfires, floods or other natural disasters) can be proposed by state, territory or local governments for consideration for funding under the Jobs Fund...<sup>80</sup>

**2.40** In addition, the diagram included in the guidelines to depict the flow of projects from the project identification stage, through the common gateway criteria to component-specific criteria and then to approval did not draw any

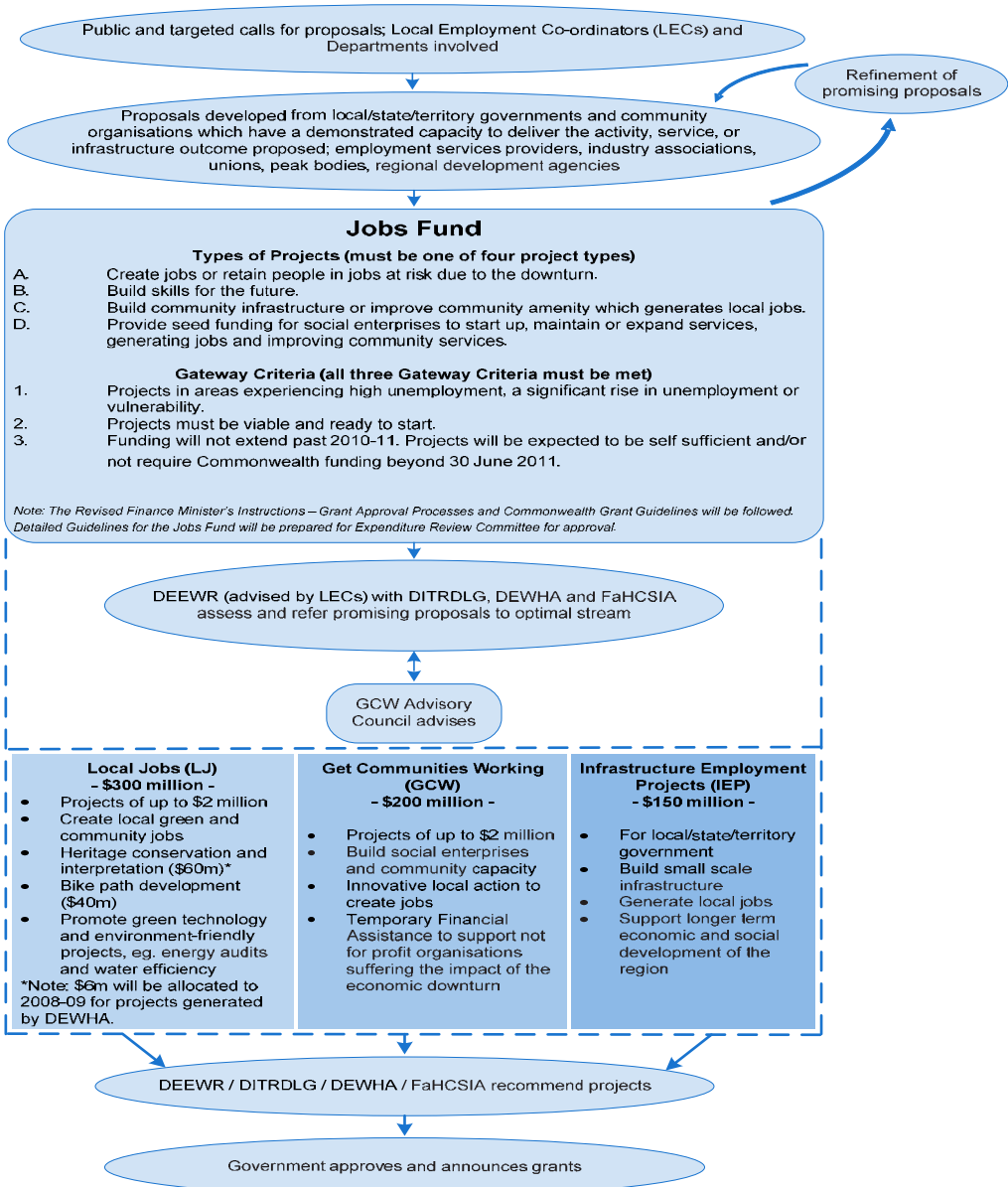
<sup>79</sup> Media Release, *Applications for First Round of \$650 million Jobs Fund Open*, The Hon Brendan O'Connor MP, Minister for Employment Participation, 18 April 2009.

<sup>80</sup> Jobs Fund Guidelines, op. cit., p. 2.

distinction between the IEP stream and the other two streams. Instead, the diagram indicated that projects to be considered under the IEP stream would be identified through the same processes as applied to the Local Jobs and Get Communities Working streams (see Figure 2.2).

Figure 2.2

Jobs Fund process diagram included in published guidelines



Source: Jobs Fund Guidelines, Round 1, 18 April 2009, p. 6.



**2.41** As a result, the published guidelines did not clearly differentiate those aspects of the advice provided to potential applicants that applied to all three streams of the Jobs Fund from those aspects that were not intended to apply to the IEP stream. In particular, the guidelines did not provide clear advice as to whether proposals could be lodged for consideration under the IEP stream and, if so, when and by whom.

**2.42** The approach subsequently adopted in relation to infrastructure proposals submitted for Jobs Fund consideration highlighted that a lack of clarity and consensus continued to exist between administering agencies as to the applicability of the general Jobs Fund process outlined in the program guidelines to the IEP stream.

*Referral of Jobs Fund applications to the IEP stream*

**2.43** As illustrated in Figure 2.2, applications for Round 1 of the Jobs Fund were submitted to DEEWR and were then to be allocated to the optimal stream for funding consideration.<sup>81</sup>

**2.44** DEEWR, the then DEWHA and Infrastructure determined that applications seeking greater than \$2 million, the maximum grant available under the Get Communities Working and Local Jobs streams<sup>82</sup> were ineligible for any funding consideration under those streams. Accordingly, they were not, in general, allocated to those streams for assessment against the program guidelines, regardless of the nature of the project involved. For example, an application relating to a bike path project that DEEWR identified as having requested in excess of \$2 million was considered to be ineligible for consideration under the competitive bike paths component and was not referred to Infrastructure for assessment under that stream.

**2.45** The Jobs Fund guidelines did not state that applications seeking more than \$2 million in funding would be ineligible for consideration under the competitive Local Jobs and Get Communities Working streams. Rather, the guidelines stated that funding of up to \$2 million per project was available under those streams, with the actual amount of funding to be determined on a case-by-case basis at the discretion of the decision-maker. This provided the

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<sup>81</sup> The application form did not provide applicants with the capacity to nominate the stream or component of the Jobs Fund they wished to be considered under.

<sup>82</sup> Including the quarantined heritage and bike paths components of the Local Jobs stream.

departments and Ministerial decision-makers or their delegates with the capacity to consider partial funding of up to \$2 million for applications that sought more than \$2 million, based on the assessed merits of a project against the program guidelines (as frequently occurs under grant programs).

**2.46** However, no such consideration was given to any of those applications that DEEWR had identified as seeking more than \$2 million (regardless of the amount by which the funding request exceeded \$2 million<sup>83</sup> or the extent to which other parties were to contribute to a project's total costs). None of the applications were assessed under any of the Jobs Fund funding streams prior to the applicant being advised that their application was unsuccessful. In this context, in June 2011, DEEWR commented to ANAO that:

Given:

- that the Guidelines were extremely clear about the maximum amount of funding available,
- the volume of applications received (in excess of 2000 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.

**2.47** Where applications considered by DEEWR to have sought more than \$2 million in grant funding related to infrastructure projects, they were referred to Infrastructure for consideration under the IEP stream. In total, 232 applications were referred to Infrastructure. In all cases, Infrastructure advised DEEWR that the applications would not be accepted for assessment on the basis that the IEP stream was not application-based and that all projects under the stream would be initiated by the Australian Government.

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<sup>83</sup> Some applicants were seeking amounts over \$2 million cap of less than \$50 000 or 2.5 per cent.

**2.48** The outcome of Round 1 of the Jobs Fund components administered by DEEWR was finalised by the departmental delegate on 14 August 2009. On 3 September 2009, the 232 applicants whose projects had been referred to the IEP stream were provided with a proforma letter by DEEWR advising that their projects were ineligible under the Local Jobs and Get Communities Working streams due to having sought more than the maximum funding of \$2 million, and that there was no application process for the IEP stream.

**2.49** Following queries from a number of applicants, it was discovered that 48 of the 232 applications had not, in fact, sought funding exceeding \$2 million on a GST exclusive basis and had been incorrectly excluded from the Local Jobs and Get Communities Working competitive rounds. Those 48 projects were subsequently assessed by DEEWR in October and November 2009, with none being supported for funding consideration under either the Local Jobs or Get Communities Working streams.<sup>84</sup>

**2.50** These and other aspects of the receipt, allocation and assessment processes undertaken in relation to applications to the first round of the Jobs Fund will be further examined in the separate performance audit of the general component of the Local Jobs stream of the Jobs Fund currently underway.

## **Role of the joint departmental committee**

**2.51** The published Jobs Fund guidelines outlined that a Joint Committee comprising staff from four departments (DEEWR, the then DEWHA, Infrastructure and FaHCSIA) would:

determine a project's suitability for funding under the Local Jobs or Get Communities Working streams, and direct to the appropriate Department for assessment (unless the Department has already conducted an assessment).<sup>85</sup>

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<sup>84</sup> This included, for example, the bike path project referred to in paragraph 2.44, which, as a result of being incorrectly identified as seeking greater than \$2 million, was not assessed by Infrastructure as part of the competitive bike paths component. After the error in relation to the amount of funding being sought was identified, the application was ultimately unsuccessfully assessed by DEEWR under the Get Communities Working stream (as noted, after the result of the first round of that stream had been determined). In that case, had Infrastructure examined the 232 applications referred to it by DEEWR for consideration under the IEP stream, it would have been in a position to identify the error and refer the application to the correct component that it also administered for consideration against other comparable projects.

<sup>85</sup> Jobs Fund Guidelines, April 2009, p. 4.

**2.52** This role for the Joint Committee in allocating projects to the appropriate stream for assessment purposes was also reflected in the flow diagram included in the published guidelines (see Figure 2.2).<sup>86</sup> However, the Joint Committee did not undertake this role. In this respect, in May 2011 DEEWR commented to ANAO that:

Given the Committee included senior staff (SES Band 1 and 2) from DEEWR, Infrastructure and DEWHA, it was not appropriate for the Committee to individually allocate in excess of 2000 applications (2 601 applications were received seeking funding close to \$1.5 billion) to a stream for assessment.

Senior staff from DEEWR decided which stream a project should be considered under. Some projects were sent to the other Departments only to be later returned as the other Department decided it would be better suited under Local Jobs/Get Communities Working streams.

The Committee met regularly during Round One.<sup>87</sup> The Committee included Group and Branch Managers, as well as Directors and other relevant staff, from DEEWR, Infrastructure and DEWHA. These meetings considered matters such as assessment and guideline issues or questions, as well as progress with assessment processes and funding agreements.

**2.53** The Jobs Fund guidelines outlined that the Joint Committee would perform a different role in respect to the IEP stream. Specifically, as discussed at paragraphs 2.9 to 2.13, the final published form of the guidelines provided that:

Infrastructure Employment Projects initiated by the Australian Government will comply with the gateway criteria and will be referred by Infrastructure to the Joint Committee for their consideration and advice.

**2.54** However, in addition to the Joint Committee not performing the published role of referring applications to the appropriate department for assessment under the competitive streams, there were no instances where projects initiated for IEP stream consideration were referred to the Joint Committee for its consideration and advice. Against this background, in June 2011 DEEWR commented to ANAO that:

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<sup>86</sup> Specifically, the flow diagram included the following statement: 'DEEWR (advised by LECs) with DITRD LG, DEWHA and FaHCSIA assess and refer promising proposals to optimal stream'.

<sup>87</sup> The Joint Committee first met on 28 July 2009, two months after applications closed on 22 May 2009. Further meetings occurred on 18 August 2009, 29 September 2009 and 14 October 2009.

Given the volume of received submissions, it would have been neither effective nor efficient to instigate an assessment process of projects suitability by a formal committee.

This was recognised by all agencies. As documented in the Inter-Departmental Committee Terms of Reference, the committee fulfilled its role by 'considering in aggregate the Jobs Fund projects recommended by DEEWR, DEWHA and Infrastructure to their respective delegates'.

## Re-targeting of the Jobs Fund

**2.55** 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'. An Interdepartmental Committee (IDC), chaired by DEEWR, was established to:

- provide advice on ways to improve the coordination and implementation of jobs programs and recruitment across government; and
- recommend any new initiatives the Government should consider to support jobs, and ensure Australia was building the skills needed for the future.

**2.56** An interim *Keep Australia Working* report released in July 2009 made a number of recommendations to assist the work of the IDC and enhance government action in the areas of greatest immediate need. These included:

- rolling out Centrelink job expos and financial information seminars in Priority Employment Areas;
- ensuring nation building and economic stimulus measures aided the transition to a prosperous, sustainable economy in all parts of Australia, including the fostering of skills required for a low pollution future; and
- considering how in the future to best focus the Jobs Fund on projects in Priority Employment Areas that will produce local jobs for local people, training and apprenticeships and pathways to long-term employment. In this respect, the Interim Report advised:

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>88</sup>

**2.57** 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 \$244.841 million in funding remaining available under the Local Jobs and Get Communities Working streams of the Jobs Fund.

**2.58** A second call for applications under the general elements of the Local Jobs and Get Communities Working streams opened on 5 November 2009 and closed on 11 December 2009. Separate revised guidelines were issued in respect to Round 2 of each of those streams to reflect a re-targeting of each stream following the final *Keep Australia Working* report.<sup>89</sup> However, the original Jobs Fund guidelines continued to apply to the IEP stream, and projects continued to be required to meet each of the originally specified gateway criteria in order to be considered for funding under the IEP stream.

### **Proposed amendments to the IEP program guidelines**

**2.59** By late 2009, Infrastructure had come to the view that, whilst there was no immediate imperative to amend the guidelines applying to the IEP stream, to not do so would continue to create confusion in the operation of the program, including continued attempts by proponents to apply for funds. Accordingly, the department discussed revising the guidelines applying to the IEP stream with the Office of the Infrastructure Minister. In particular, Infrastructure proposed that guidelines specific to the IEP stream be developed and published. Amending the existing guidelines was seen as beneficial given that DEEWR had released separate guidelines for the second rounds of the Local Jobs and Get Communities Working streams, compared with the single

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<sup>88</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>89</sup> That report had recommended that: 'A second round of the Jobs Fund should proceed quickly and with a clear focus on supporting specific objectives that will assist with economic recovery. The second round should be targeted to more sustainable employment and training opportunities for the most disadvantaged Australians by promoting green jobs (through the Local Jobs stream) and more effective intermediate labour market models of social enterprise (through the Get Communities Working stream).' (*Keep Australia Working*, Senator the Hon Mark Arbib, Minister for Employment Participation, The Hon Jason Clare MP, Parliamentary Secretary for Employment, October 2009, p. 19.)

set of guidelines originally released in April 2009 that addressed all three streams, including IEP.

**2.60** Draft revised guidelines for the IEP stream were provided to the Minister's Office in January 2010. The key changes proposed by Infrastructure included:

- removing any reference to the Local Jobs and Get Communities Working streams;
- making it clearer that projects were to be initiated by the Government and reiterating that the IEP stream was not an application-based program (including by removing any reference to use of the Jobs Fund application forms);
- removing any reference to the Local Employment Coordinators;
- clearly outlining the assessment and approval processes that had been adopted for the IEP stream; and
- removing any reference to the gateway criteria.

**2.61** However, following further discussions, it was decided that no further action was to be taken to amend the existing Jobs Fund guidelines.

**2.62** Subsequently, on 5 July 2010, the published guidelines were amended by way of an explanatory note to extend the eligibility for funding under the IEP stream to 30 June 2012 (gateway criterion 3 had stipulated that funding would not be available beyond 30 June 2011). This amendment had become necessary because a number of the projects being considered for IEP stream funding were not expected to be completed by the original program end date of 30 June 2011 (making such projects ineligible for funding consideration under the original guidelines). Initially, the explanatory note amending the guidelines to extend the program was published on the Infrastructure website in July 2010, along with the guidelines which had been published on the website since July 2009. Subsequently, despite the program remaining operational until 30 June 2012, both the program guidelines and amending explanatory note were removed from the Infrastructure website.<sup>90</sup>

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<sup>90</sup> On 24 March 2011, the Jobs Fund program guidelines applying to the Local Jobs and Get Communities Working streams administered by DEEWR were similarly amended to extend the project completion date under those streams to 30 June 2012 to allow some delayed projects to be completed and deliver the anticipated community benefits.



## Provision of guidelines to project proponents

**2.63** The CCGs note that ‘clear, consistent and well-documented grant guidelines are an important component of effective and accessible grants administration’.<sup>91</sup> Similarly, the 2008 Strategic Review of Grants, which led to the introduction of the CCGs, concluded that:

In the interests of transparency and equity of access, program guidelines should be not only published but actively publicised to potentially interested parties.<sup>92</sup>

**2.64** Accordingly, the CCGs include an obligation on agencies to develop guidelines for new grant programs and to make them publicly available (including on agency websites).<sup>93</sup> As noted at paragraph 2.62, the guidelines applying to the IEP stream are no longer available from the Infrastructure website. In addition, the program guidelines were not provided to the proponents of those projects that were initiated for consideration of possible IEP stream funding. Further, in interacting with proponents prior to a funding decision being made, the department endeavoured to ensure that the proponent was not aware that it was the IEP stream of the Jobs Fund under which they were being considered for funding. For example:

- correspondence with the proponents was not to reference the IEP stream of the Jobs Fund; and
- the form<sup>94</sup> used to obtain information from proponents for assessment purposes was constructed so as to make no reference to the Jobs Fund or the IEP stream (this is in contrast to the approach taken with forms developed for other economic stimulus programs administered by Infrastructure which explicitly identified the relevant grant program).

## Conclusions

**2.65** Robust planning and design is one of the key principles for grants administration set out in the CCGs. The IEP stream of the Jobs Fund exhibited some of the features of a well designed grants program. In particular:

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<sup>91</sup> Commonwealth Grant Guidelines, op. cit., p. 22.

<sup>92</sup> Mr Peter Grant PSM, *Strategic Review of the Administration of Australian Government Grant Programs*, 31 July 2008, p. 56.

<sup>93</sup> Commonwealth Grant Guidelines, op. cit., p. 11.

<sup>94</sup> Referred to as a ‘Request for information’ form.



- analysis was undertaken by the lead policy agency (DEEWR) to identify the overall objectives and focus of the Jobs Fund, including identifying those communities most affected by the economic downturn and which would, accordingly, be the focus of assistance under the Jobs Fund; and
- program guidelines were developed by agencies, approved by the then Prime Minister and published.

**2.66** However, the program guidelines were not sufficiently robust. One shortcoming specific to the IEP stream was that the guidelines did not clearly outline the processes through which projects could be initiated for consideration of possible IEP stream funding (an issue examined further in Chapter 3 of this audit report).

**2.67** More broadly, whilst the guidelines included eligibility and threshold requirements that projects would be required to satisfy in order to be considered for funding, they did not clearly articulate the assessment criteria that would be applied in selecting which of the compliant and eligible proposals would receive funding under both the competitive elements of the Jobs Fund and the non-competitive IEP stream. In particular, whilst the lead department (DEEWR) advised ANAO that value for money considerations were expected to underpin the entire assessment process, the guidelines did not establish value for money as a key criterion to be applied in selecting funding recipients from among compliant proposals. Further, application of the published gateway criteria and target areas alone was insufficient to enable an assessment of the merit of proposals to be undertaken.

**2.68** Separate revised guidelines were issued in respect to Round 2 of the Local Jobs and Get Communities Working streams respectively to reflect an intended re-targeting of the Jobs Fund following the Keep Australia Working final report. The changes included amendments to the gateway criteria to better reflect the envisaged focus of the Jobs Fund on job creation. Whilst some consideration was given by Infrastructure to amending the guidelines to reflect the actual manner in which the IEP stream was operating, no changes were finalised and published. The only change that has been made to the published guidelines was to extend the IEP stream end date by twelve months.

## 3. Project initiation

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*This chapter examines the processes by which potential candidates for IEP stream funding were identified.*

### Introduction

**3.1** An early and important consideration in the design of a grant program is establishing how to structure the process by which potential funding recipients will be identified and are able to access the program.<sup>95</sup> Depending upon the policy objective that is to be addressed, there are a number of options available. These include:

- competitive funding rounds which open and close to applications on nominated dates, with eligible applications received by the closing date being assessed against the selection criteria set down for the program and then prioritised against competing, eligible applications for the available funding;
- a non-competitive, open process under which applications may be submitted at any time over the life of the program and are assessed individually against the selection criteria set down for the program, with funding decisions in relation to each application being determined without reference to the comparative merits of other applications;
- a demand-driven process under which all applications that satisfy stated eligibility criteria receive funding, up to the limit of available appropriations; or
- one-off grants to be determined on an ad-hoc basis (usually by Ministerial decision, including by Cabinet).<sup>96</sup>

**3.2** The primary objective is to implement a process by which projects most likely to contribute to the cost-effective achievement of the program objectives will be consistently and transparently selected for funding consideration. In this respect, the CGGs outline that, unless specifically agreed otherwise, competitive, merit based selection processes should be used, based upon

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<sup>95</sup> ANAO Better Practice Guide, op. cit., p. 44.

<sup>96</sup> *ibid.*

clearly defined selection criteria.<sup>97</sup> In establishing the Jobs Fund, the Government decided that the IEP stream would not operate through a competitive application-based process. Instead, projects would be identified by the Government for funding consideration. In this context, the CGGs set out general guidance concerning probity and transparency in grants administration processes, including advising that:

Agencies should also take particular care to avoid concerns arising about equitable treatment. Grant administrators, whether they are officials or other parties, are vulnerable to complaints of inequitable treatment, political and other forms of patronage or bias.<sup>98</sup>

**3.3** Accordingly, for all types of grant programs it is important that the process for identifying funding candidates that will best contribute to the achievement of stated program objectives is articulated and documented prior to the commencement of the program, and that this process is then consistently applied. This will contribute to the achievement of the key principles for grants administration set out in the CGGs, including maintaining an outcomes orientation; governance and accountability; and achieving value with public money.<sup>99</sup> These principles apply to all payments that satisfy the definition of a grant under the grants administration framework that commenced in July 2009<sup>100</sup>, including grant payments made to recipients that have been determined directly by Ministers.

## **Project initiation processes set out in program guidelines**

**3.4** The Jobs Fund guidelines stated that IEP stream projects would be ‘initiated by the Australian Government’ and that recommendations to fund projects under the IEP stream would be made by Infrastructure to the Infrastructure Minister. As discussed at paragraphs 2.13 and 2.39, the guidelines also outlined that the Local Employment Coordinators appointed for each Priority Employment Area would play a role in the identification of suitable projects for consideration under the IEP stream, as follows:

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<sup>97</sup> Commonwealth Grant Guidelines, op. cit., p. 29.

<sup>98</sup> *ibid.*, p. 28.

<sup>99</sup> See footnote 54.

<sup>100</sup> Payments that will be considered a grant and therefore subject to the grants administration framework are defined in FMA Regulation 3A.

The Australian Government will initiate and fund Infrastructure Employment Projects and, where Local Employment Co-ordinators (LECs) are operating, proposals may be submitted by the LECs to respond to emerging local priorities.<sup>101</sup>

...

[LECs] may also advise the Departments on suitable Infrastructure Employment Projects that might be funded.<sup>102</sup>

**3.5** The guidelines did not otherwise outline the process that would be followed in identifying candidate projects, or any process that proponents could follow in order to have a project considered for possible initiation as a candidate for IEP stream funding.<sup>103</sup>

**3.6** After the Jobs Fund guidelines were published and before funding became available on 1 July 2009, Infrastructure undertook some work to identify how the department could provide advice to its Minister that would assist in, and support, the early identification and targeting of the most promising projects in terms of delivering timely and effective economic stimulus.<sup>104</sup> However, these working documents had no particular status ascribed to them, and this work was not finalised into an implementation plan

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<sup>101</sup> Jobs Fund Guidelines, 18 April 2009, p. 2.

<sup>102</sup> *ibid.*, p. 7. This role was identified as being in addition to the role of LECs to work with community stakeholders to identify and develop projects that might be funded under the Local Jobs and Get Communities Working streams of the Jobs Fund.

<sup>103</sup> As outlined at paragraphs 2.59 to 2.62, in late 2009 and early 2010 Infrastructure had proposed some revisions to the guidelines, but the proposed changes would not have provided greater clarity concerning the processes to be followed in identifying candidate IEP stream projects, or the avenues available to proponents to have their projects considered for possible initiation as a candidate for IEP stream funding.

<sup>104</sup> Specifically:

- in late May 2009, work was undertaken on a 'High Level Policy Position Paper' which proposed that three approaches would be used to identify appropriate projects for funding consideration. These were: 'top down', being proposals provided by the Minister's Office; 'on hand' involving review of unsuccessful applications to the Strategic Projects component of the RLCIP that were located in a Priority Employment Area; and 'external shock events' where IEP stream proposals would be developed in response to specific negative unemployment events such as company collapses or downsizing, environmentally induced unemployment or other unexpected employment related contingencies in Priority Employment Areas; and
- in the first half of June 2009, a paper on items requiring clarification outlined that the department would identify potentially compliant IEP stream proposals from three sources: Jobs Fund applications for infrastructure projects requesting funding of more than \$2 million that had been identified and forwarded to Infrastructure by DEEWR; proposals submitted by Local Employment Coordinators; and unfunded applications to the Strategic Projects component of RLCIP that were located in a Priority Employment Area.

or strategy for the IEP stream.<sup>105</sup> In addition, the internal procedures manual for administering the IEP stream prepared by Infrastructure did not address the manner in which candidate projects would be identified, or how (or whether) interested parties were able to seek to have their project brought to the Government's attention for IEP funding consideration.<sup>106</sup>

**3.7** The lack of clarity in the guidelines about the manner in which candidates for IEP stream funding were to be identified led to a considerable number of funding inquiries being received from state government entities, various local government authorities, community groups and private sector entities.<sup>107</sup> Rather than undertake an initial assessment of the potential merits of projects raised through each inquiry as possible candidates for IEP stream funding, the usual departmental response was to provide inquirers with a Fact Sheet on the IEP stream and to advise that:

Please note that there is no application process for IEP. The Australian Government will be identifying projects and, once identified, will work with relevant state/local governments to formalise a project.<sup>108</sup>

**3.8** On 1 May 2009, Infrastructure also asked that the Jobs Fund inquiries service operated by DEEWR inform IEP-related inquirers that there was no application process for the IEP stream. In addition, in September 2009, the information on the IEP stream provided to stakeholders through the Jobs Fund Frequently Asked Questions document published on DEEWR's website was substantially reduced, as illustrated by Table 3.1.

<sup>105</sup> By way of comparison, an implementation strategy was developed by the department and approved by the Minister in respect to the quarantined bike paths component of the Jobs Fund, as well as in respect to each round of the Strategic Projects component of the RLCIP and in respect to the Better Regions Program.

<sup>106</sup> The procedures manual also did not address the requirement under the published guidelines for projects that were initiated for IEP funding to be referred to the Joint Committee for consideration and advice prior to a funding decision being made (see paragraphs 2.9 to 2.13). As discussed at paragraphs 2.51 to 2.54, there were no instances where projects initiated for IEP stream consideration were referred to the Joint Committee for its consideration and advice.

<sup>107</sup> Departmental records indicate that, following the April 2009 announcement of the Jobs Fund, there were more than 50 inquiries made to Infrastructure or Ministers by or on behalf of project proponents in respect to the funding available under the IEP stream.

<sup>108</sup> In one instance, after considering the Fact Sheet and the department's initial advice, an inquirer sought advice as to 'how is the Australian Government identifying projects for the IEP stream? Who is doing this?' The May 2009 departmental response advised the inquirer that: '[the Infrastructure Minister] and the Department of Infrastructure, Transport, Regional Development and Local Government are currently finalising a process to identify potential projects for IEP funding. In the interim, you may wish to consider using endorsement from your local member...who may be able to assist in bringing your project to the attention of [the Minister's] office.'

**Table 3.1**

**Advice on the Infrastructure Employment Projects stream set out in the Jobs Fund Frequently Asked Questions document**

<p>Prior to September 2009:</p>	<p><b>What can be funded under Infrastructure Employment Projects?</b>  The IEP stream will be initiated by the Australian Government in partnership with state governments and will support infrastructure projects in areas that are vulnerable to the impact of large scale losses of employment as a result of the economic downturn.</p> <p>The IEP stream builds on the \$800 million Community Infrastructure Program (CIP) announced by the Prime Minister on 18 November 2008 and 3 February 2009 to stimulate local economies in light of the downturn.</p> <p>Infrastructure Employment Projects provide funding for infrastructure projects including new and major renovations or refurbishments, for example:</p> <ul style="list-style-type: none"> <li>• social and cultural infrastructure such as art spaces and gardens</li> <li>• recreational facilities such as swimming pools and sports stadiums</li> <li>• tourism information centres</li> <li>• community facilities such as playgroup centres and senior citizens' centres</li> <li>• access facilities including road and rail infrastructure and local government owned or managed airport related infrastructure</li> <li>• environmental initiatives such as drain and sewerage upgrades and recycling plants.</li> </ul> <p><b>Have projects been pre-determined for IEP stream or can potential proponents work with council or state government to put projects forward?</b></p> <p>Infrastructure Employment Projects will be announced in due course, with a focus on ready-to-start projects that will create jobs and stimulate local economies.</p> <p>All projects will be initiated by the Australian Government and jointly funded with state and territory and/or local governments.</p> <p>Identified projects will need to meet at least one of the following four target areas:</p> <ul style="list-style-type: none"> <li>• create jobs or retain people in jobs at risk due to the downturn;</li> <li>• build skills for the future;</li> <li>• build community infrastructure or improve community amenity which generates local jobs; or</li> <li>• provide seed funding for social enterprises to start up, maintain or expand services, generating jobs and improving community services.</li> </ul> <p>In addition, the Jobs Fund will have a common set of gateway criteria which must be met for funding under any of the three streams:</p> <ol style="list-style-type: none"> <li>1. Projects must be in areas experiencing high unemployment, a significant rise in unemployment or vulnerability;</li> <li>2. Projects must be viable and ready to start; and</li> <li>3. Projects will be expected to be self-sufficient and/or not require Australian Government funding beyond 30 June 2011.</li> </ol>
<p>From September 2009:</p>	<p><b>What can be funded under Infrastructure Employment Projects?</b>  The IEP stream will be initiated by the Australian Government in partnership with state governments and will support infrastructure projects in areas that are vulnerable to the impact of large scale losses of employment as a result of the economic downturn. Organisations should not submit an application for this stream unless requested to do so by the Australian Government.</p>

Source: ANAO analysis of DEEWR records.

**3.9** Nevertheless, inquiries about how to access the funding available under the IEP stream continued to be received, with Infrastructure continuing to provide inquirers with a copy of the IEP Fact Sheet and proforma advice that there was no application process. In addition, a number of inquirers were

informed that they could 'lobby' the Infrastructure Minister directly, or seek to have their local council and/or local Member of Parliament 'lobby' the Minister on their behalf. Further, (as discussed at paragraph 2.47) a significant number of applications (232) to the first round of the Jobs Fund that closed on 22 May 2009 which were identified as seeking funding greater than \$2 million towards an infrastructure-related project were referred to Infrastructure by DEEWR for assessment under the IEP stream.<sup>109</sup> Those applications were not accepted for assessment by Infrastructure and were returned to DEEWR on the basis that proponents were not able to apply for IEP funding, with all projects to be initiated by the Australian Government.

**3.10** Against this background, Figure 3.1 illustrates the relatively small number of projects (19) that have been formally considered for possible IEP stream funding since the program commenced on 1 July 2009. A total of six projects were initiated for departmental assessment in the six months to 31 December 2009. Over the 24 months of the program to 30 June 2011, there were only two months where more than two projects were initiated for a departmental assessment. Specifically:

- in July 2009, the first month that any projects were initiated, the department was asked to commence an assessment of three projects; and
- in May 2010, four projects were referred to the department for assessment. Two of these projects were referred to the department on 12 May 2010, which was also the day funding decisions were made in respect to the second round of the Strategic Projects component of the RLCIP. Both projects had been the subject of an unsuccessful application to that funding round. The consideration of unsuccessful Strategic Projects component applications as a source of candidate projects for IEP funding is examined later in this chapter (see paragraphs 3.24 to 3.79).

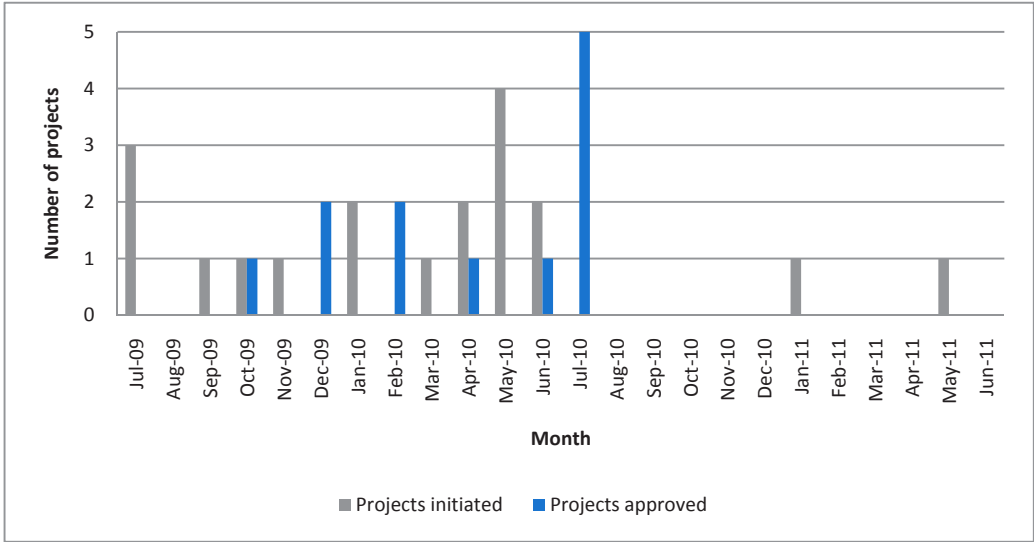
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<sup>109</sup> As discussed at paragraphs 2.9 to 2.13, it had originally been proposed that the Jobs Fund guidelines would provide that, where predominantly infrastructure-related project proposals met the gateway criteria and exceeded \$2 million (the maximum grant available under the non-IEP streams of the Jobs Fund), they would be directed to Infrastructure for assessment under the IEP stream, but this provision had been removed from the final version of the guidelines.



Figure 3.1

Timing and number of projects being initiated and approved for IEP stream funding: July 2009 to June 2011



Source: ANAO analysis of Infrastructure data.

**3.11** The 19 projects were located in 16 different cities, towns or regions, across six states, with at least one project being located in each of 16 Federal electorates. Consistent with the objectives for this audit and practices adopted for many years in respect to audits of Commonwealth discretionary grant programs, ANAO also examined the distribution of funding in geographic and electorate terms for those projects that were initiated for IEP stream funding consideration. In this respect, at the time the 19 projects were initiated for funding consideration, ten of the Federal electorates were held by the Australian Labor Party, eight were held by one of the Coalition parties and one was held by an Independent member.

**3.12** As illustrated by Figure 3.1, the majority of projects considered for IEP stream funding were initiated during the first six months of 2010, with 11 being initiated for assessment over the course of 2010, and a further two projects being initiated for assessment in the first half of 2011. In this context, Infrastructure first advised its Minister that the need for economic stimulus through the IEP stream had diminished in February 2011.

**3.13** All but two of the 19 projects accepted for initiation as a possible IEP stream project had been the subject of a representation to the department, the Infrastructure Minister, Treasurer or then Prime Minister concerning possible



Commonwealth funding.<sup>110</sup> In total, ten projects, including nine for which a representation had been made, had also been the subject of unsuccessful applications to other economic stimulus programs (this issue is discussed further at paragraphs 3.24 to 3.133). Eight representations relating to projects for which a previous application had not been made to another economic stimulus program also resulted in the project being initiated as a possible IEP stream project (see Table 3.2). Records of the initiation process did not indicate the criteria applied in deciding which representations would result in a project being accepted for initiation under the IEP stream, and those representations that were not to be considered.

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<sup>110</sup> As is discussed further at paragraphs 3.134 to 3.136, one of those two projects related to the provision of additional funds to meet the increased costs of a 2007 election commitment that had been allocated to the Better Regions Program (whose guidelines did not permit increased costs to be funded from within that program). In relation to the second of these projects, which was the final project initiated for IEP stream assessment (in May 2011), there was no evidence available to indicate that it had been the subject of a representation (see further at paragraphs 3.70 to 3.75).

**Table 3.2**

**Projects initiated for IEP stream funding consideration as a result of representations made to Ministers (excluding unsuccessful applications to other economic stimulus programs)**

Representation made to	Date of representation	Representation made by	Project
Then Prime Minister	13 July 2009	Queensland Premier	Queensland Symphony Orchestra Co-Location
	31 July 2009	Australian Ruby League and National Rugby League	Rugby League Central
	On or before 7 August 2009	West Australian Premier	Fitzgerald River National Park Road Upgrade and Walk Trail
Treasurer, in context of 2010–11 Budget preparation	28 January 2010	Cairns Regional Council	Cairns Cultural Precinct
Infrastructure Minister	May 2009	Sydney Cricket and Sports Ground Trust	MA Noble Stand Redevelopment
	10 April 2010	Central Darling Shire Council	Wilcannia Business Hub
	12 May 2010	Essendon Football Club	Essendon Sporting and Community Hub
	21 June 2010	North Burnett Regional Council	Sapper Jacob Moerland Memorial Skate Park

Source: ANAO analysis of departmental records.

## Role of Local Employment Coordinators

**3.14** The January 2009 Government decision to appoint and deploy up to 20 Priority Area Employment Directors (later renamed as LECs) stated that these individuals were to be a core part of the Commonwealth's infrastructure and stimulus measures.<sup>111</sup> The then Prime Minister's 5 April 2009 announcement of the Jobs and Training Compact outlined the linkage between the Jobs Fund and LECs under the compact with local communities element, as follows:

<sup>111</sup> See paragraphs 2.3 to 2.4.

Local communities—A \$650 million Jobs Fund to help support local jobs and training through community projects in regions hardest hit by the economic downturn and the appointment of Local Employment Coordinators in seven key locations to coordinate effort to support jobs and training.<sup>112</sup>

**3.15** Similarly, the May 2009 Budget Measure funding the Jobs Fund and the engagement of LECs stated that, amongst other things, the LECs would:

ensure opportunities provided by government programs and the private sector are used to boost the local economy.<sup>113</sup>

**3.16** As noted, the Jobs Fund program guidelines released in April 2009 stated that:

- where LECs are operating, IEP stream proposals may be submitted by the Coordinators to respond to emerging local priorities<sup>114</sup>; and
- the LECs may advise the departments on suitable projects to be considered for possible IEP stream funding.<sup>115</sup>

**3.17** However, at no stage were any of the LECs invited to advise Infrastructure on projects they were aware of that might be suitable candidates for IEP stream funding.<sup>116</sup> During the course of the audit, ANAO provided the current LECs with the opportunity to comment on their experience with the initiation of projects under the IEP stream. Of those that responded, most were unaware that projects were still being considered for possible IEP stream funding across 2010 and into 2011. In addition, respondents typically indicated to ANAO that, had they been asked, they would have been able to identify suitable projects that could have been considered for possible IEP stream funding in their Priority Employment Area.

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<sup>112</sup> The Hon. Kevin Rudd MP, Prime Minister of Australia, *Government establishes Jobs and Training Compact*, Media Release, 5 April 2009. As discussed at paragraphs 2.15 to 2.16, a further 13 Priority Employment Areas in which LECs would be appointed were subsequently announced in May and July 2009.

<sup>113</sup> Budget Paper No. 2 2009–10, op. cit., p. 174.

<sup>114</sup> Jobs Fund Guidelines, op. cit., p. 2 (see paragraph 2.39).

<sup>115</sup> *ibid.*, p. 7 (see paragraph 3.4).

<sup>116</sup> In this respect, ANAO notes that projects were initiated for IEP stream funding consideration over the period July 2009 to May 2011. The Jobs and Training Compact Monitoring Report prepared by DEEWR for the quarter ending September 2009 reported that permanent or interim LECs had been engaged in each of the 20 Priority Employment Areas by July 2009.

**3.18** On at least one occasion, an LEC did seek to have a project considered for IEP stream funding. Specifically, the City of Casey was seeking \$2.38 million towards a \$2.88 million project, referred to as the Cairns Road Reserve Redevelopment, under which it proposed to redevelop an existing area to incorporate playing facilities, upgrade and extend dressing rooms and incorporate a social recreational area into the facility.

**3.19** The City of Casey had submitted an application for this project under the first competitive round of the Jobs Fund. As the project was an infrastructure proposal seeking more than \$2 million, DEEWR referred it to Infrastructure for consideration under the IEP stream. As was the case with all other applications that were referred to the IEP stream (see paragraphs 2.43 to 2.50), this project was returned to DEEWR without Infrastructure having examined its merits as a candidate for IEP stream funding. The application was also not assessed by DEEWR against the Jobs Fund guidelines as it was considered to be ineligible for funding under the Local Jobs and Get Communities Working streams. The City of Casey was informed of this outcome on 3 September 2009.

**3.20** In January 2010, the LEC for the South Eastern Melbourne Priority Employment Area wrote to the Infrastructure Minister asking that the Cairns Road Reserve Redevelopment project be considered for funding under the IEP stream. In submitting the project, the LEC noted, amongst other things, that:

The project will create employment for at least 23 local contractors and suppliers. The project will have a requirement for labour intensive activity as it involves building and construction, landscaping and ground development as its core activities.

The area has high unemployment, programmes will be developed in conjunction with local Jobs Services Australia providers in order to ensure that labour is sourced from the local area and wherever possible unemployed job seekers will be engaged.

**3.21** Again, the project was not examined against the published Jobs Fund guidelines. Rather, in February 2010, Infrastructure wrote to the LEC providing the proforma response to inquiries about accessing IEP stream funding. Specifically, the department informed the LEC that:

There is no application process for IEP. Projects will be initiated by the Australian Government and jointly funded with state and territory and/or local governments. Further information on this stream of the Jobs Fund is available at [http://www.infrastructure.gov.au/regional/infrastructure\\_employment\\_projects.aspx](http://www.infrastructure.gov.au/regional/infrastructure_employment_projects.aspx).

**3.22** As discussed at paragraph 3.16, this advice was contrary to the terms of the published program guidelines which had explicitly provided for LECs to submit projects for IEP funding consideration.

**3.23** As it eventuated, none of the 19 projects initiated for consideration under the IEP stream had been put forward by a LEC.<sup>117</sup> The only project considered for IEP funding that was located in a Priority Employment Area was the Cairns Cultural Precinct project, but that project (if it proceeds) is not likely to involve any significant construction work until after 30 June 2012. This is well outside the original timeframe ending June 2011 for the delivery of economic stimulus through the Jobs Fund, and after the revised program completion date of 30 June 2012. As a consequence, the project is being considered for possible removal from the IEP stream, with the related funding potentially to be transferred to a separate administered item so that the project can be funded outside of the Jobs Fund<sup>118</sup> (this approach was taken in June 2011 in relation to another project—see further at paragraph 1.18).

## Consideration of unsuccessful applications to the Regional and Local Community Infrastructure Program

**3.24** Reflecting the focus on infrastructure projects as part of the various measures adopted by the Government in response to the global financial crisis, there were a number of stimulus programs administered by the Infrastructure portfolio. In addition to both the IEP stream and bike paths component of the Jobs Fund, this included the RLCIP. There are two components to the RLCIP:

<sup>117</sup> As outlined at paragraph 2.60, one of the changes to the IEP program guidelines proposed in late 2009 by Infrastructure was to remove any reference to the LECs. This amendment was proposed notwithstanding that, as noted at paragraph 2.11, DEEWR had declined an earlier request that the program guidelines as originally published outline that the LECs would not have any involvement with the IEP stream. DEEWR did not agree to this amendment based on the terms of the then Prime Minister's 5 April 2009 announcement of the Jobs Fund and correspondence with the then Prime Minister's Office which had indicated that LECs would be involved in identifying emerging local priorities for funding under the IEP stream.

<sup>118</sup> As noted at footnote 49, the Government announced a funding commitment in relation to this project on 7 July 2010.

- a total of \$450 million through a non-competitive, direct allocation shared amongst all local governments (calculated on the basis of a formula), known as the Council Allocation component; and
- a competitive component where \$670 million was made available for a limited number of large strategic projects, referred to as the Strategic Projects component.

**3.25** There have been three rounds of the Council Allocation component and two rounds of the Strategic Projects component.<sup>119</sup> The \$50 million first round of the Strategic Projects component that closed to applications on 23 December 2008 was significantly oversubscribed, with 335 applications having been received seeking a total of \$1.2 billion in funding. In that context, it was envisaged that applications to the Strategic Projects component of the RLCIP would provide a source of 'ready-to-go' projects that could be considered for funding under the \$250 million Priority Area Infrastructure Fund approved by the SPBC on 28 January 2009.<sup>120</sup> Subsequently, as part of its broader economic stimulus package, the Government agreed to an additional \$500 million in funding being made available under the first round of the Strategic Projects component, with applications to that round being re-opened.<sup>121</sup> Applications re-closed on 6 March 2009 and funding decisions were taken on 22 April 2009.

**3.26** As noted at paragraph 2.6, in March 2009 the Priority Area Infrastructure Fund was subsumed into the Jobs Fund as the IEP stream, with the published Jobs Fund guidelines stating that:

The Infrastructure Employment Projects stream builds on the \$800 million Community Infrastructure Program announced by the Prime Minister on 18 November 2008 and 3 February 2009 to stimulate local economies in light of the economic downturn.

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<sup>119</sup> As noted in footnote 44, the first round of the Strategic Projects component was examined by ANAO in Audit Report No.3 2010–11, op cit., and the first three rounds of the Council Allocation component were examined by ANAO in Audit Report No.42 2010–11, op. cit.

<sup>120</sup> See paragraphs 2.3 to 2.4.

<sup>121</sup> Re-opening the first round of the Strategic Projects component of the RLCIP to applications following the increase in available funding had been agreed with the Australian Greens in the context of securing passage in February 2009 of the legislation relating to the Government's \$42 billion Nation Building and Jobs Plan. A further \$120 million was then made available through the second round of the Strategic Projects component, resulting in the total of \$670 million in funding under this program.

**3.27** Against this background, as noted at paragraph 2.10, on 2 April 2009 the Office of the Infrastructure Minister advised Infrastructure that projects to be considered for IEP stream funding would include unsuccessful applications to the Strategic Projects component of RLCIP. This was seen as assisting with prompt implementation of the IEP stream.<sup>122</sup>

**3.28** The envisaged approach of unsuccessful Strategic Projects component applications providing an important source of candidate projects for IEP stream funding was supported by the consistency of key aspects of the published program guidelines for the two stimulus programs. Specifically:

- for the Strategic Projects component, projects needed to be sufficiently well developed (as demonstrated through the project application) to enable them to commence and be completed in a relatively short period of time. Under the IEP stream of the Jobs Fund that commenced on 1 July 2009, projects were required to be viable and ready to start and funding was not to be made available after 30 June 2011;
- both programs were looking to fund the construction, renovation or refurbishment of community infrastructure so as to generate and/or retain local jobs; and
- the guidelines for each program had outlined similar categories of infrastructure projects as being eligible for funding.<sup>123</sup>

**3.29** Drawing on unsuccessful applications to a significantly oversubscribed stimulus program administered by the same department offered a potentially efficient and cost-effective means of quickly identifying a population of candidate projects for the IEP stream of the Jobs Fund.<sup>124</sup> This is particularly the case having regard for the resources already invested by both applicants (in preparing applications) and the department (in assessing the applications against similar criteria as applied to the IEP stream).

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<sup>122</sup> As outlined at footnote 59, this approach was also consistent with the intent of the original Priority Area Infrastructure Fund where it had been envisaged that applications to the first round of the Strategic Projects component of the RLCIP, which was then underway, would provide a source of 'ready-to-go' projects that could be considered for funding under the Fund.

<sup>123</sup> The exceptions were that projects relating to road and rail infrastructure and local government owned or managed airport related infrastructure were eligible under IEP, but ineligible under the Strategic Projects component.

<sup>124</sup> Such an approach would not limit the Government's prerogative to consider other projects that may come to its attention through other channels.

**3.30** Nevertheless, in order to support transparent and accountable grant administration, it was important for the processes to be used in deciding which unsuccessful applications to other programs would be considered for IEP stream funding to have been appropriately documented. This is particularly the case where the total funding sought by the pool of such projects exceeded the IEP funding available with the result that not all such projects could have been funded. In that circumstance, to the extent such projects were to be considered for IEP stream funding, it is reasonable to expect that there would be a robust process employed to assist in targeting funding consideration towards those unsuccessful RLCIP applications that were the most promising in terms of the Jobs Fund guidelines.<sup>125</sup> However, as outlined below, this was not the case.

### **Consideration of unsuccessful applications to the first round of the Strategic Projects component for IEP stream funding**

**3.31** On 22 April 2009, decisions were taken about which of the 484 applications to the first round of the Strategic Projects component would be approved. In total, these applications had sought \$2 billion in Commonwealth funding, nearly four times the \$550 million in funding available. Funding totalling \$549.6 million was awarded to 137 projects, leaving a pool of 347 assessed but unfunded projects which were seeking about \$1.5 billion in funding, compared to the \$144.2 million available at that time through the IEP stream.<sup>126</sup> Of the 347 unsuccessful applications:

- 278 seeking a total of \$1.13 billion in funding had not been shortlisted for a risk assessment;
- 12 seeking a total of \$49.2 million in funding had been shortlisted for a risk assessment, with the risk assessment identifying the application as being either ineligible, non-compliant or too high a risk; and

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<sup>125</sup> In the context of grants administration, in July 2011 the Joint Committee of Public Accounts and Audit commented on the importance of factors influencing the selection of grant recipients being transparently documented so as to provide assurance to the Parliament and the public that due process has been followed. See 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.

<sup>126</sup> See paragraph 1.15. As noted at paragraph 1.16, IEP-stream funding was subsequently reduced to \$137.2 million.



- 57 seeking a total of \$237.5 million in funding had been shortlisted and assessed by the department as eligible, compliant and of sufficiently low risk that they could be considered for possible funding.

**3.32** As a result, subject to those unsuccessful applications being assessed as eligible under the Jobs Fund (by addressing at least one of the four target areas (see paragraph 2.25) and meeting each of the three gateway criteria (see paragraph 2.30)), the first round of the Strategic Projects component was a potentially valuable source of 'shovel ready' candidate projects for the IEP stream.

*Unsuccessful first round applications for projects that were to commence quickly and be completed by the Jobs Fund deadline of 30 June 2011*

**3.33** Reflecting the economic stimulus character of the program, the Jobs Fund guidelines highlighted the importance of timely implementation of projects in order to support the creation and retention of jobs. To that end, two of the three gateway criteria required that:

- projects must be viable and ready to start; and
- funding would not extend past 2010–11, with projects expected to be self sufficient and/or not require Australian Government funding beyond 30 June 2011.

**3.34** Against this background, of the 347 unsuccessful applications to the first round of the Strategic Projects component of the RLCIP, 330 (95 per cent) had stated that the nominated project would commence in 2009 and be completed by 30 June 2011. These applications had involved new construction projects, major renovations or refurbishments in relation to:

- social and cultural infrastructure such as town halls, community centres and libraries (101 applications seeking \$383.3 million);
- recreational facilities such as swimming pools, sports stadiums and skate parks (112 applications seeking \$445.7 million);
- tourism infrastructure such as walkways and tourism information centres (29 applications seeking \$130.0 million);
- children, youth and seniors facilities (8 applications seeking \$32.6 million);

- access facilities such as foreshore redevelopments and bus/rail/airport terminate upgrades (35 applications seeking \$144.8 million); and
- environmental initiatives such as drain and sewerage upgrades and recycling plants (45 applications seeking \$157.0 million).

**3.35** These categories also reflected the types of projects that the Jobs Fund guidelines had stated were eligible for IEP stream funding. Accordingly, to the extent they demonstrated that they would generate local jobs, each of these applications involved a project that was consistent with one of the four Jobs Fund target areas, being projects that:

build community infrastructure or improve community amenity which generates local jobs.<sup>127</sup>

**3.36** These 330 unsuccessful applications had, in aggregate, sought \$1.29 billion in Australian Government funding. This was substantially more than the funding available under the IEP stream.

*Unsuccessful first round applications located in a Priority Employment Area*

**3.37** The Jobs Fund program guidelines stated that projects that would be awarded funding would be focused on:

directly generating jobs for people in communities with high unemployment, a rise in unemployment or vulnerability.<sup>128</sup>

**3.38** Consistent with this intent, the program guidelines included as one of the three gateway criteria a requirement that projects be in areas experiencing high unemployment, a significant rise in unemployment or vulnerability. In this respect:

- the Jobs Fund was a targeted fund designed to support jobs through the delivery of funded projects; and
- 20 Priority Employment Areas were identified and agreed by the Government as representing those areas with the greatest need for direct assistance.<sup>129</sup>

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<sup>127</sup> This was the third of four target areas outlined in the Jobs Fund guidelines, identified as Target Area C.

<sup>128</sup> Jobs Fund Guidelines, 18 April 2009, p. 1.

**3.39** Of the 330 unsuccessful applications to the first round of the Strategic Projects component that had stated that the project would commence in 2009 and be completed by 30 June 2011, 57 had been submitted by applicants located in one of the 20 Priority Employment Areas. Of those 57 applications, which involved a total funding bid of \$226.4 million:

- 19 (seeking \$64.53 million) had already been the subject of a risk assessment as part of the Strategic Projects component assessment process, with only one having been assessed as representing too high a risk for Commonwealth funding<sup>130</sup>; and
- the remaining 38 had not yet been the subject of a risk assessment.<sup>131</sup>

**3.40** Accordingly, as outlined in Table 3.3, excluding the project that had been assessed as representing too high a risk for funding, there were 56 unsuccessful first round Strategic Projects component applications seeking \$220.4 million for which:

- the applicant was located in a Priority Employment Area;
- project risks had either been assessed as acceptable or yet to be assessed; and
- the project was expected to commence in 2009 and be delivered by 30 June 2011.

<sup>129</sup> In this respect, Recommendation 4 of the *Keep Australia Working* Interim Report released in July 2009 was that government: 'Consider how best, in the future, to focus the Jobs Fund on projects in Local Priority Employment Areas that produce local jobs for local people, training and apprenticeships and pathways to long term employment.' (*Keep Australia Working* Interim Report, op. cit., p. 20—see paragraphs 2.55 to 2.57.)

<sup>130</sup> In a further two instances, the application had been assessed as involving works that were ineligible under the Strategic Projects component (road construction activity—projects of this type were eligible for funding under the IEP stream of the Jobs Fund) or as involving an ineligible category of applicant (this proponent was not eligible under the IEP stream of the Jobs Fund).

<sup>131</sup> In this respect, ANAO notes that only three per cent of the 206 applications to the first round of the Strategic Projects component that had been the subject of a risk assessment had been found to represent too high a risk for Commonwealth funding.

**Table 3.3**

**Unsuccessful applications to the first round of RLCIP Strategic Projects component for projects located in a Priority Employment Area and expected to commence in 2009 and be completed by 30 June 2011**

Priority Employment Area	Number of projects	Funding sought (\$m)
Canterbury-Bankstown and South Western Sydney	3	8.87
Illawarra	1	6.95
Richmond-Tweed and Clarence Valley	4	18.27
Mid-North Coast	4	8.51
South Eastern Melbourne	1	2.50
Ipswich-Logan	1	2.40
Northern and Western Adelaide	4	25.64
South West Perth	1	2.70
North and North Western Tasmania	8	31.20
Port Augusta-Whyalla-Port Pirie	1	3.95
Southern Wide Bay-Burnett	1	7.53
Bundaberg-Hervey Bay	1	4.49
North Western Melbourne	3	11.48
Ballarat-Bendigo (Central Victoria)	5	18.67
Central and North Western Sydney	4	16.40
Central Coast-Hunter	5	23.55
Townsville-Thuringowa	2	7.58
North Eastern Victoria	7	19.74
<b>Total</b>	<b>56</b>	<b>220.43</b>

Source: ANAO analysis of Infrastructure and DEEWR data.

*Departmental analysis of unsuccessful Strategic Projects component applications as IEP candidates*

**3.41** On the basis of the above analysis, unsuccessful applications to the first round of the RLCIP Strategic Projects component that was completed on 22 April 2009 provided a significant population of candidate projects that were potentially suitable for IEP stream funding. However, the department did not initiate any analysis of those applications in terms of the Jobs Fund guidelines and objectives (as published on 18 April 2009), or prepare such advice to

inform the Minister's consideration so as to assist with the targeting and timely implementation of IEP stream funding. This was the case notwithstanding:

- the 2 April 2009 advice from the Minister's Office<sup>132</sup> reaffirming that projects to be considered for IEP stream funding would include unsuccessful applications to the Strategic Projects component of RLCIP (so as to assist with prompt implementation of the IEP stream); and
- the delays that were occurring with candidate projects being initiated for assessment as a candidate for IEP stream funding (see Figure 3.1).

**3.42** Such analysis was also not undertaken to inform the Minister's consideration of the departmental assessment of one unsuccessful application to the first round of the Strategic Projects component that was, in February 2010, initiated for consideration of possible IEP stream funding (see paragraph 3.48).

*Unsuccessful first round Strategic Projects component applicants seeking to have their projects considered for IEP stream funding*

**3.43** Proforma letters advising unsuccessful applicants to the first round of the Strategic Projects component of the outcome were sent on 12 May 2009.<sup>133</sup> In each case, the letter drew the proponent's attention to the possibility of receiving funding under the Jobs Fund, as follows:

While many worthy applicants were unable to be funded, the Australian Government remains mindful of the need to provide continued support to regional and local communities to build and renew local infrastructure and support jobs.

That is why the Government has also committed \$650 million towards the new Jobs Fund, which is open for applications at present. The Jobs Fund is intended to 'support and create jobs and improve skills, by funding projects that build community infrastructure and create social capital in local communities'. You may wish to consider its guidelines and other details available at <[www.deewr.gov.au/Employment/Pages/JobsFund.aspx](http://www.deewr.gov.au/Employment/Pages/JobsFund.aspx)>.

**3.44** The letters did not differentiate between the streams of the Jobs Fund, as reflected in the reference to the \$650 million Jobs Fund which includes the \$150 million IEP stream. In that context, between June and October 2009, at

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<sup>132</sup> See paragraph 3.27.

<sup>133</sup> ANAO Audit Report No.3 2010–11, op. cit., p. 199.

least six unsuccessful applicants to the first round of the Strategic Projects component wrote to the Infrastructure Minister and/or a Parliamentary Secretary in the portfolio on at least one occasion to directly inquire as to whether their project could be considered for funding under the IEP stream.

**3.45** In no case did these inquiries result in the department analysing the potential merits of the project as a candidate for IEP stream funding or otherwise advise the Minister in that regard in the context of preparing a proposed response to the inquirer, or to assist with the targeting of IEP stream funding. Instead, the usual approach was for the inquirer to be written to and informed that there was no application process for the IEP stream but that they could consider applying under the expected second funding round for the Local Jobs and Get Communities Working streams of the Jobs Fund (which was ultimately announced in November 2009), or the second round of the Strategic Projects component of the RLCIP (which had been announced on 25 June 2009).

**3.46** For example, in response to being advised that its Revitalisation of the Gin Gin Streetscape project had been unsuccessful in the first round of the Strategic Projects component, Bundaberg Regional Council wrote to the Infrastructure Minister on 9 June 2009 asking that the project be considered for funding under the IEP stream of the Jobs Fund. This project was located in the Bundaberg-Hervey Bay Priority Employment Area.<sup>134</sup> However, on 9 July 2009, the department wrote to Council on the Minister's behalf advising that:

- the first round of the two application based streams of the Jobs Fund had closed, but that there may be a second application round;
- there is no application process for the IEP stream; and
- the second round of the RLCIP had been announced on 25 June 2009.<sup>135</sup>

**3.47** Applications to the second round of the Strategic Projects component of the RLCIP opened on 9 October 2009. From that date until February 2010,

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<sup>134</sup> This was one of the eleven additional Priority Employment Areas approved by the then Deputy Prime Minister in June 2009, and announced on 8 July 2009 in line with the recommendations of the interim *Keep Australia Working* report (see paragraph 2.16).

<sup>135</sup> Bundaberg Regional Council subsequently submitted an application for this project to the second round of the Strategic Projects component of the RLCIP. This project, which Council's application stated would create 20 full-time equivalent jobs during the construction phase, was approved for funding under the second round of the Strategic Projects component.

departmental records did not identify any further inquiries about IEP funding as having been received from (or on behalf of) proponents of unsuccessful round one applications to the Strategic Projects component.

**3.48** This situation changed on 1 February 2010, when the then Federal Member for Flynn approached the Infrastructure Minister in respect to obtaining \$5.5 million in Australian Government funding for the redevelopment of the terminal at Gladstone Airport. Gladstone Regional Council had unsuccessfully applied to the first round of the RLCIP Strategic Projects component for \$22 million towards a \$65 million project as a one-third contribution from the Australian Government towards a runway reconstruction project at the airport. Gladstone is not located in one of the 20 Priority Employment Areas approved by the Government. Its application to the first round of the Strategic Projects component had not been shortlisted for a risk assessment.

**3.49** In this case, the project was initiated for consideration under the IEP stream, with the department being asked to undertake an initial assessment of the project's suitability against the program guidelines. The department's initial assessment of the terminal project as a possible candidate for IEP stream funding relied upon the application relating to the runway reconstruction project submitted to the first round of the Strategic Projects component. However, Infrastructure's assessment did not inform the Minister of which aspects of that application had contributed to it not being successful in its request for Strategic Projects component funding, or how those aspects had been addressed or were considered not relevant to the consideration of possible IEP stream funding. Notwithstanding the delays that were being experienced with the initiation of projects for possible IEP stream funding, Infrastructure also did not take the opportunity presented by the initiation of the Gladstone Airport project to identify, for the Minister's consideration, a population of other unsuccessful applications to the first round of the Strategic Projects component that might be suitable candidates for IEP stream funding.<sup>136</sup>

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<sup>136</sup> For example, as outlined at paragraphs 3.33 to 3.40, there were a number of unfunded projects located in a Priority Employment Area where the application had outlined that the project, could commence quickly and be completed by the Jobs Fund deadline of 30 June 2011.

**3.50** The department was subsequently asked to complete a full assessment of the Gladstone Regional Council's project after seeking and obtaining information from the proponent in relation to the terminal upgrade project from Council. Funding of \$5.5 million from the IEP stream for the terminal upgrade project was approved on 16 February 2010.

**3.51** The reasons for referring the Gladstone Airport project to the department for IEP assessment were not documented. The reasons for not referring for IEP assessment other projects in respect of which similar representations had been received were similarly not documented. Until May 2011, there were no other instances of an unsuccessful application to the first round of the Strategic Projects component being considered for possible IEP stream funding. In particular, none of the 57 applications that had been assessed by Infrastructure as eligible, compliant and of sufficiently low risk that they could be considered for funding were identified at that time for possible IEP stream funding.<sup>137</sup>

### **Consideration of unsuccessful applications to the second round of the Strategic Projects component for IEP stream funding**

**3.52** On 9 October 2009, the Infrastructure Minister announced that applications for the \$120 million second round of the Strategic Projects component of the RLCIP were open and due by 15 January 2010.<sup>138</sup> In total, 393 applications were received seeking, in aggregate, some \$1.3 billion in funding.

**3.53** Of the 393 applications received, 138 were assessed by the department as being ineligible or non-compliant under the RLCIP program guidelines. The remaining 255 projects, seeking funding totalling \$847.5 million, were reduced

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<sup>137</sup> As outlined at paragraphs 3.71 to 3.74, in May 2011 a project that had been the subject of an unsuccessful application to both the first and second round of the RLCIP (and to the first round of the Jobs Fund) was initiated for possible IEP stream funding.

<sup>138</sup> The Hon Anthony Albanese MP, Minister for Infrastructure, Transport, Regional Development and Local Government, *Applications Open for \$220 million in Community Infrastructure*, Media Release, AA418/2009, 9 October 2009.



to a shortlist of 109 applications (finalised on 30 March 2010<sup>139</sup>) that were to be the subject of a risk assessment. As part of that process, shortlisted projects were rated by the department as either 'most suitable', 'suitable' or 'not suitable'. The Infrastructure Minister finalised the funding decisions for this round of the RLCIP on 12 May 2010. Of the 109 shortlisted projects:

- 33 projects (seeking funding totalling \$74.7 million) that had been rated 'most suitable' were approved for funding. A further four projects (seeking \$13.1 million) that had also been rated 'most suitable' were not approved for funding;
- 15 projects (seeking funding totalling \$46.1 million) that had been rated 'suitable' for funding were approved. A further 50 projects (seeking \$133.3 million) that had also been rated 'suitable' were not approved for funding; and
- none of the seven shortlisted projects that had been assessed by the department as not being suitable for funding were approved.

*Project initiated for IEP funding consideration before the RLCIP Strategic Projects component second round was completed*

**3.54** The Council of the City of Sydney, on behalf of the Museum of Contemporary Art Ltd, applied under the second round of the RLCIP Strategic Projects component for \$26 million towards a \$52 million project to extend and refurbish the Museum of Contemporary Art, located in the Rocks area of Sydney. The project was to address the following:

- lack of dedicated education facilities;
- no dedicated exhibition facilities;
- lack of space to display collections and exhibitions;

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<sup>139</sup> The 109 shortlisted applications comprised: 101 that had been assessed by the department as satisfying various screening criteria agreed with the Minister; six that did not meet these criteria but which were located in areas that had populations of greater than 250 000, with the intention being that this would enable 'population spread' to be taken into account; one which was added to the shortlist at the request of the Minister's Office (this project had originally been excluded from further consideration as it had been assessed by the department as being ineligible); and one which was included in the shortlist due to an earlier departmental error (the department identified that an ineligible project had been included in error on the initial shortlist of 101 projects. As the first 100 councils on the shortlist had been selected from the eligible applications in order of population size, the department was able to identify the application that would have been shortlisted if the error had not occurred, with this application then being added to the shortlist).

- confusing circulation with entrances on two levels;
- lift only access to Level 4 galleries;
- no passenger lift access to Level 2 mezzanine galleries;
- inappropriate and non-compliant disability access;
- cramped foyer spaces exacerbated by growing number of visitors;
- inadequate cloakings, toilets and disabled facilities;
- high cost and consumption of energy;
- commercial revenue lost when venues used for Museum hosted events and public programs; and
- a small and badly configured retail outlet.

**3.55** This project was not shortlisted under the Strategic Projects component because it did not meet two criteria that had not been included in the published guidelines for that program. The first of these involved excluding applications from councils that had been successful in applying for funding under the first round of the Strategic Projects component.<sup>140</sup> The second involved excluding applications that sought more than \$6 million in funding.

**3.56** In any event, on 15 March 2010, prior to the completion of the departmental assessment of applications to the second round of the RLCIP Strategic Projects component (see paragraph 3.53), the Museum of Contemporary Art approached the Office of the Infrastructure Minister providing summary information on the project. In providing this information, the Museum of Contemporary Art noted that the project was the subject of an application that had been made on its behalf by the Council of the City of Sydney. The Museum further noted that it had been offered \$10 million from a private donor, conditional on its Board committing to commencing the project by the end of June 2010, and that this reduced its request for Australian Government funding from \$26 million to \$16 million.

**3.57** The following day, 16 March 2010, the project was referred by the Minister's Office to Infrastructure for an initial assessment under the IEP stream of the Jobs Fund.

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<sup>140</sup> The Council of the City of Sydney had been approved in the first round of the Strategic Projects component of RLCIP for funding of \$2 million for its Waterloo Oval Youth Facility Upgrade project.

**3.58** On 9 April 2010, the Museum of Contemporary Art informed Infrastructure that the New South Wales Government had agreed to commit an additional \$3 million to the project, reducing the bid for Australian Government funding from \$16 million to \$13 million. IEP stream funding of \$13 million for the MCA Redevelopment and Creation of a National Centre for Creative Learning project was approved by the Minister on 27 April 2010 (prior to decisions on the second round of the Strategic Projects component being made on 12 May 2010).

*Applications lodged to the second round of the Strategic Projects component of RLCIP after proponents had inquired about accessing IEP stream funding*

**3.59** There were at least eight instances where an application was made to the second round of the Strategic Projects component of the RLCIP after the proponent had unsuccessfully inquired about the possibility of the relevant project being considered for funding under the IEP stream of the Jobs Fund. These inquiries had been made between May 2009 and October 2009, prior to the second round of the Strategic Projects component being opened to applications on 9 October 2009 (with an application closing date of 15 January 2010).

**3.60** For example, on 20 May 2009 Campbelltown City Council had sought advice through the Jobs Fund website as to whether it could submit an application after 1 July 2009<sup>141</sup> under the IEP stream for what it described as:

a significant infrastructure project that would create employment opportunities during construction, while also providing opportunities for creating employment within an area of high unemployment.<sup>142</sup> Although it was initially planned to submit for the May deadline<sup>143</sup>, Council's executive

<sup>141</sup> As discussed at paragraph 2.38, the originally published guidelines had stated that Jobs Fund proposals could be submitted at any time from 1 July 2009, despite the public call for applications to the Jobs Fund announced by the then Minister for Employment Participation Fund and the associated public advertisements clearly identifying a closed round approach with a closing date of 22 May 2009. The guidelines stated elsewhere that Infrastructure Employment Projects would be initiated by the Australian Government, but the guidelines did not state that the advice on the timeframe for submitting proposals did not apply to the IEP stream.

<sup>142</sup> The project was located in the Canterbury-Bankstown and South Western Sydney Priority Employment Area, which had been one of the first seven Priority Employment Areas announced by the then Prime Minister on 5 April 2009 (see paragraph 2.15).

<sup>143</sup> This relates to the 22 May 2009 closing date for applications to the first round of the Jobs Fund (see footnote 141).

wish to brief our elected people on the magnitude of the project and also ratify the level of financial assistance Council would contribute to the project.

**3.61** The 1 June 2009 response from Infrastructure was to provide Council with a copy of the IEP Fact Sheet and advise that:

Please note that there is no application process for IEP. The Australian Government will be identifying projects and, once identified, will work with relevant State/local governments to formalise a project.

Council can submit proposals directly to [*the Infrastructure Minister*] for his consideration under the Infrastructure Employment Projects.

**3.62** Council acted in accordance with the department's advice. Specifically, Campbelltown City Council wrote directly to the Minister on 7 October 2009 providing him with an overview of the Macquarie Fields Community and Recreation Facility Project Concept<sup>144</sup> and advising that a complete application had been prepared and was available for review, once it received confirmation of the application process from Infrastructure. Council advised the Minister that it was seeking a grant of \$4.95 million towards a total estimated project cost of \$5.06 million. On 26 October 2009, the Federal Member for Werriwa wrote to the Minister supporting Council's proposal for funding under the IEP stream. At the request of the Minister's Office, on 30 October 2009 Infrastructure again wrote to Council<sup>145</sup>, this time advising it that:

- there is no application process for the IEP stream;
- all projects would be initiated by the Australian Government and jointly funded with State and Territory and/or local governments;
- the program guidelines could be obtained from the DEEWR website; and

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<sup>144</sup> Council advised that the project would include the construction of a community and leisure facility attached to the existing Macquarie Fields Swimming Centre, the current outdoor swimming pool would be upgraded and a water toy play park would be constructed.

<sup>145</sup> The Minister's Office had provided the department with a copy of the Member for Werriwa's letter 'for information only' such that a response to the Federal Member was not prepared by the department.

- Council could consider re-scoping the project and applying for funds under the second round of the Strategic Projects component of the RLCIP.<sup>146</sup>

**3.63** As indicated by this example, for those inquiries for IEP stream funding that received a response, it was common for the proponent to be advised that there was no application process for the IEP stream and that the proponent might wish to consider applying to the second round of the Strategic Projects component (and, for some projects, the second rounds of the Local Jobs and Get Communities Working streams of the Jobs Fund).

**3.64** Of the eight identifiable instances where the inquirer did subsequently apply to the second round of the Strategic Projects component, the project was approved for Strategic Projects funding in six cases (comprising four projects rated 'most suitable' and two rated 'suitable'—see paragraph 3.53). The remaining two projects submitted to the second round of the RLCIP Strategic Projects component where the proponent had inquired between May 2009 and October 2009 about the possibility of IEP stream funding were not shortlisted for a risk assessment.

*Projects initiated for IEP funding consideration contemporaneous with completion of the RLCIP Strategic Projects component second round*

**3.65** Of the 138 projects submitted to the second round of the RLCIP Strategic Projects component that were assessed by Infrastructure as being ineligible or non-compliant, two were referred by the Minister's Office to the department for assessment under the IEP stream of the Jobs Fund. Both were subsequently approved for funding, as follows:

- in May 2009, Mitchell Shire Council had written to the then Prime Minister referencing an undertaking to fund a new basketball stadium at Wandong in Victoria advised to have been given by the Prime Minister when visiting the area in February 2009 following the Black Saturday bushfires. Mitchell Shire Council subsequently applied to the

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<sup>146</sup> Council duly submitted an application for this project to the second round of the Strategic Projects component. However, similar to the Council of the City of Sydney's application relating to the Museum of Contemporary Art (see paragraph 3.55), the application was not shortlisted for possible funding as a result of the application of an unpublished criterion of excluding applications from councils that had been successful in obtaining funding under the first round of the Strategic Projects component (in which Campbelltown City Council had been approved for funding of \$4 million for its Campbelltown Public Library Redevelopment (Community Engagement/Education Hub) project).

second round of the Strategic Projects component that closed on 15 January 2010 for \$2.69 million to construct (by 31 March 2011) a sports and recreation stadium in Wandong. In March 2010, PM&C had inquired of DEEWR<sup>147</sup> as to why funding had not been provided for that project under the Jobs Fund (this inquiry was raised by PM&C after the then Prime Minister's Office had asked for the reasons). In May 2010, Infrastructure was asked to begin an initial assessment of the project for IEP funding, whilst the Strategic Projects component application stayed on foot. The Strategic Projects application was eventually assessed as being non-compliant.<sup>148</sup> IEP stream funding of \$2 250 310 was approved for the project in July 2010<sup>149</sup>; and

- Hobart City Council applied to the second round of the RLCIP Strategic Projects component for \$1.09 million for the Domain Tennis Centre Upgrade project (to be completed by 1 December 2010).<sup>150</sup> The application was assessed as being non-compliant (due to important information not being included). Funding decisions were made in respect to the second round of the Strategic Projects component on 12 May 2010. On the same day, the department was asked by the Minister's Office to undertake an initial assessment of two<sup>151</sup> unsuccessful Strategic Projects applications for possible IEP stream funding, including the Domain Tennis Centre Upgrade project. IEP stream funding for this project of \$1.2 million was approved in July 2010.

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<sup>147</sup> As discussed, DEEWR was the lead agency for the Jobs Fund and had responsibility for administering the competitive, rounds-based Get Communities Working and Local Jobs streams (excluding the quarantined bike paths and heritage components).

<sup>148</sup> This was because the application had been assessed by the department as: not including any partnership funding; missing key project documents (specifically, there was no feasibility study, business plan or project plan); and being internally inconsistent in relation to the construction cost estimates.

<sup>149</sup> Following considerable delay in settling the details of this project, an IEP stream funding agreement for this project was executed on 28 June 2011. The IEP stream funding is expected to be fully paid to the funding recipient by 30 June 2012 (the revised completion date for the IEP stream), with the overall project scheduled to be completed in September 2012.

<sup>150</sup> The project had earlier been the subject of an unsuccessful application to the first round of the Jobs Fund by Tennis Tasmania (see further at paragraphs 3.92 to 3.96).

<sup>151</sup> See paragraphs 3.66 to 3.69 for discussion of the other project initiated for IEP funding consideration on this day.

*Fourth second round application initiated for IEP stream consideration*

**3.66** Also on 12 May 2010, the Minister's Office asked the department to undertake an initial IEP stream assessment of an application to the second round of the RLCIP Strategic Projects component lodged by Kangaroo Island Council in South Australia. That Council had applied unsuccessfully to both rounds of the Strategic Projects component, as follows:

- in the first round, \$4.75 million was applied for towards the estimated \$5.55 million cost of upgrading 19 camping and day visitor sites across Kangaroo Island. That application was not shortlisted for a risk assessment; and
- in the second round, \$2.6 million was sought towards a similar project, but with a reduced scope (as was reflected in a reduced overall cost estimate of \$2.8 million).

**3.67** In May 2009, shortly after funding decisions were made in relation to the first round of the Strategic Projects component, Kangaroo Island Council had approached the department about accessing funding under the IEP stream for a different project to the one that was the subject of the Strategic Projects component applications. That project was to construct a purpose built, multi-function/flexible community centre which was intended to form 'the core of a planned development of a community hub at the centrally located Kingscote Oval complex' (Kingscote being the main town on the Island). On the basis of advice from the department that there was no application form for the IEP stream and proposals needed to be discussed directly with the Minister, Council subsequently contacted the Minister's Office seeking to discuss obtaining IEP stream funding for this project. This was followed, on 28 May 2009, with a written submission from Council to the Minister seeking \$1 million towards the multi-function community hub project at Kingscote. Departmental records state that:

As IEP is not applications-based, a standard ineligible Ministerial response was provided to the Minister's Office. However, it was not sent out as the Departmental Liaison Officer subsequently advised that No Further Action was required.

**3.68** As noted, on 9 October 2009, the Infrastructure Minister announced round two of the Strategic Projects component with applications due by 15 January 2010. Kangaroo Island Council meeting minutes show that the Council considered that it had three projects in varying stages of development



that would be suitable candidates to be the subject of an application to the second round of the Strategic Projects component. One of these again related to the cost of upgrading various camping and day visitor sites across Kangaroo Island, while another related to the redevelopment of Kingscote district oval that had been the subject of the May 2009 submission for funding under the IEP stream.<sup>152</sup> As noted at paragraph 3.66, Council decided to submit an application to the Strategic Projects second round for the camping and day visitor sites project, albeit with a smaller scope than its round one application.<sup>153</sup> Specifically, rather than 19 sites with a funding bid of \$4.75 million and an overall estimate of \$5.55 million, the new application related to works at nine high priority/high visitation/high local community use sites. The amount of funding sought was \$2.6 million towards a total estimated project cost of \$2.8 million.

**3.69** Also as noted, funding decisions for the second round of the Strategic Projects component were made on 12 May 2010. Similar to the first round, the application from Kangaroo Island Council was not shortlisted and was not approved for funding. However, also on 12 May 2010, the Minister's Office asked that an initial departmental assessment of the unsuccessful round two application for \$2.6 million be undertaken for possible IEP stream funding. IEP stream funding for the project was approved in June 2010. Council was not provided with a response to its May 2009 request that the Kingscote district oval redevelopment be considered for IEP stream funding.

*Final RLCIP Strategic Projects component application initiated for funding consideration in May 2011*

**3.70** On 18 April 2011, Infrastructure finalised its assessment of the Wilcannia Business Hub project which had been referred to it for IEP assessment in April 2010 following a representation to the Infrastructure Minister by Central Darling Shire Council (see Table 3.2). The department recommended that the Minister withdraw this project from consideration under the IEP stream on the basis that it did not meet the program guidelines

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<sup>152</sup> The third was a stormwater capture project located at Penneshaw village on the north east Dudley Peninsula on Kangaroo Island.

<sup>153</sup> Information later provided by Council to the department in respect to the initial IEP stream assessment subsequently undertaken of this project stated that: 'although this is the same project that was submitted in RLCIP Round 1, after debrief discussions Council readdressed the submission. Hence, the scope was reduced to ensure a more realistic project would be delivered within timeframes, whilst also ensuring it didn't compromise the outcomes Strategy.'



as it: required funding beyond 30 June 2012; and no adequate risk mitigation measures could be secured in light of the identified risks. The department further advised the Minister that:

Should you withdraw the project under IEP, the savings associated from the project could be applied to other Government priorities, or be applied as off-sets in the Budget process to deliver other portfolio priorities.

**3.71** On 3 May 2011, the Minister agreed with the department's recommendation, and signed a letter to the Central Darling Shire Council informing it that its bid for Commonwealth funding had not been successful. Departmental records state that, also on 3 May 2011, the Minister's Office referred Cloncurry Shire Council's Cloncurry Community Precinct project to Infrastructure for initial assessment under the IEP stream. An application for funding for this project had been submitted to both rounds of the Strategic Projects component, as follows:

- in the first round, Council sought \$2.5 million towards a \$9 million project to redevelop the Cloncurry Shire Hall and Library complex and provide new meetings rooms, with an expected completion date of 1 March 2010. This application was included in the 188 that had been shortlisted and assessed by the department as eligible, compliant and of sufficiently low risk that they could be considered for possible funding, but was one of the 57 such applications that had not been approved for funding (see further at paragraph 3.31)<sup>154</sup>; and
- Council's application to the second round of the RLCIP Strategic Projects component had sought \$2.5 million towards the estimated \$6 million cost of the project (the shire hall redevelopment was no longer included in the scope of the project submitted for funding), with an expected project completion date of 1 August 2011. The application had been assessed as eligible and compliant, but was one of 146 applications not shortlisted for a risk assessment (see further at paragraph 3.53) and was not approved for funding. Accordingly, the

<sup>154</sup> The reasons for the selection of 131 of the shortlisted applications, and non-selection of 57 shortlisted applications, were not apparent from program document or subsequent advice to ANAO. See further in ANAO Audit Report No.3 2010–11, op. cit., p. 26.

project was rated less highly in the second round than it had been in the first round.<sup>155</sup>

**3.72** A possible grant of \$2.4 million towards this project was considered under the IEP stream. In its 18 May 2011 advice to the Minister on the results of its initial assessment, the department noted that:

- there appeared to be sufficient time for the first stage<sup>156</sup> of the Cloncurry Community Precinct project to be completed before 30 June 2012, but that: ‘funding the project at this stage after the global financial crisis may subject the Government to criticism in relation to the objectives of IEP of generating jobs in regions affected by the economic downturn or natural disaster’;
- it was ‘arguable whether investment in a region with unemployment below the Queensland average<sup>157</sup>, and which has not suffered the same significant impacts of natural disasters, such as a cyclone, as other regions would have a significant impact in creating or supporting additional jobs in construction, relative to other potential projects’; and
- there was a risk, in the context of this ANAO performance audit, that the department would be criticised for not examining the range of unsuccessful RLCIP projects and, potentially, unsuccessful projects from other programs, to consider where the Cloncurry Community Precinct project would rate in terms of relative merit.

**3.73** In this latter respect, as noted at paragraph 3.70, the Cloncurry Community Precinct project was initiated as a candidate for IEP stream funding after Infrastructure had recommended the Wilcannia Business Hub project be withdrawn from consideration under the IEP stream and advised the Minister that the resulting ‘savings’ could be applied to other Government priorities or as off-sets in the Budget process to deliver other portfolio priorities. In this context, in addition to the Cloncurry Community Precinct

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<sup>155</sup> The project had also been the subject of a submission to the first round of the Jobs Fund, which had been included in the 232 applications referred to Infrastructure for consideration under the IEP stream, but not accepted (see paragraph 2.47).

<sup>156</sup> Infrastructure’s advice to the Minister noted that the estimated cost of the first stage of the overall project was \$8.673 million.

<sup>157</sup> The initial assessment noted that the unemployment rate for Cloncurry had risen from 2.8 per cent in September 2009 to 4.2 per cent in September 2010, but remained lower than the Qld average of 5.5 per cent.

project, from the second round of the Strategic Projects component there also remained:

- two projects (of the four) rated as 'most suitable' (see further at paragraph 3.53) that had not been approved for funding and which had sought \$2.5 million<sup>158</sup> or less<sup>159</sup>; and
- 22 projects (of the 50) rated as 'suitable' that had not been approved for funding and which had sought \$2.5 million or less. Of those 22 projects, five were located in a Priority Employment Area.

**3.74** Infrastructure provided the Minister with two options in respect to this project: agree to encourage the Cloncurry Shire Council to pursue funding under the Regional Development Australia Fund (RDAF); or agree that the department seek further information in order to consider the project under the IEP stream. The department's briefing noted that its preliminary assessment was that the project 'just satisfies the IEP criteria', but indicated the department's preference that the project not be further considered under the IEP stream.

**3.75** In early June 2011, following discussions, further advice in respect to this project was provided by Infrastructure to its Minister. The Minister agreed to departmental recommendations that:

- given the IEP stream was to finish at the end of 2011–12, the IEP stream should be closed for new projects not already approved or given in principle agreement; and
- a new administered item be established with the \$2.4 million in unallocated funds from the IEP stream, to be used for the Cloncurry Community Precinct project.

*Unsuccessful second round applications for projects that were proposed to be completed by the Jobs Fund deadline of 30 June 2011*

**3.76** Of the 207 eligible and compliant but unsuccessful applications to the second round of the RLCIP Strategic Projects component that closed in January 2010, 122 (59 per cent) had stated that the project would be commenced quickly and completed by 30 June 2011 (the original end date for the IEP stream of the

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<sup>158</sup> Being the amount sought by Cloncurry Shire Council in its second round funding application.

<sup>159</sup> Neither of these two projects was located in a Priority Employment Area.

Jobs Fund). Similar to the unsuccessful applications to the first Strategic Projects round, they involved new construction projects, major renovations or refurbishments in relation to categories of infrastructure that were eligible for funding under both the Strategic Projects component and the IEP stream. Accordingly, to the extent they demonstrated a contribution to generating jobs, each of these 122 applications involved a project that was consistent with the Jobs Fund target area relating to the funding of projects that build community infrastructure which generate local jobs.

3.77 In aggregate, these 122 unsuccessful applications had sought \$332.7 million in Australian Government funding. This was substantially more than the \$74.9 million<sup>160</sup> available at that time under the IEP stream to fund projects.

*Unsuccessful second round applications located in a Priority Employment Area*

3.78 Of the 122 eligible and compliant but unsuccessful applications to the second round of the Strategic Projects component that had stated that the project would commence in 2010 and be completed by 30 June 2011, 30 involved an applicant located in one of the 20 Priority Employment Areas. In total, these 30 applications had sought \$101.9 million in grant funding. Of these, eight applications (seeking funding totalling \$18.8 million) had already been the subject of a risk assessment as part of the Strategic Projects component assessment process. Of those:

- six had been assessed as suitable for funding (with an aggregate funding bid of \$14.8 million); and
- two had been assessed as not suitable for Commonwealth funding.

3.79 This meant that, after funding decisions were made in May 2010 for the second round of the Strategic Projects component, there remained 28 compliant and eligible applications that were located in a Priority Area, where risks had either been assessed as acceptable or had yet to be assessed and the project was expected to commence in 2010 and be delivered by 30 June 2011 (see Table 3.4).

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<sup>160</sup> See paragraph 1.15 which outlined that the amount available for project funding under the IEP stream was reduced to \$132.7 million following the 2009–10 Additional Estimates process. By May 2010, five projects had been approved for a total of \$57.8 million in IEP stream funding, leaving \$74.9 million available.

**Table 3.4**

**Unsuccessful applications to the second round of the Strategic Projects component for projects located in a Priority Employment Area that were expected to be completed by 30 June 2011**

Priority Employment Area	Number of projects	Funding sought (\$m)
Canterbury-Bankstown and South Western Sydney	4	19.11
Richmond-Tweed and Clarence Valley	2	8.66
Mid-North Coast	2	4.28
South Eastern Melbourne	2	21.84
Ipswich-Logan	1	1.35
Northern and Western Adelaide	3	6.77
North and North Western Tasmania	1	2.57
Port Augusta-Whyalla-Port Pirie	1	3.00
North Western Melbourne	2	7.52
Central and North Western Sydney	3	4.71
Cairns	1	3.67
Central Coast-Hunter	3	7.40
North Eastern Victoria	3	7.02
<b>Total</b>	<b>28</b>	<b>97.9</b>

Source: ANAO analysis of Infrastructure and DEEWR data.

**3.80** In total, these 28 applications had sought funding of \$97.9 million, providing a significant population of candidate projects for the \$74.9 million in IEP stream funding that remained available. However, the department did not initiate any analysis of any of these applications in terms of the Jobs Fund guidelines and objectives or prepare such advice to assist the Minister's consideration of potential IEP stream funding candidates. This was the case notwithstanding that:

- IEP funding consideration had already been initiated in respect to four other unsuccessful round two applications,<sup>161</sup> none of which were located in a Priority Employment Area; and

<sup>161</sup> As noted at paragraph 3.70, in May 2011 (one year after funding decisions had been made in respect to the second round of the Strategic Projects component) a fifth unsuccessful application to the second round of the Strategic Projects component was initiated for IEP stream funding consideration.

- such consideration could have assisted with the targeting of IEP stream funding and may have assisted in avoiding the need for the IEP stream end date to be extended to 30 June 2012 (this decision was taken in June 2010), and the associated further rephrasing of economic stimulus expenditure.

## **Consideration of unsuccessful applications to the first round of the Jobs Fund**

**3.81** The first call for Jobs Fund applications that closed on 22 May 2009 was significantly oversubscribed, with more than 2 300 applications being unsuccessful when funding outcomes across all streams were finalised in late 2009. In total, applications submitted to DEEWR between funding rounds and in response to the second call for applications (which closed on 11 December 2009 and was finalised in March 2010) resulted in a further 1 000 unsuccessful applications.

**3.82** Six (32 per cent) of the 19 projects initiated for IEP stream funding consideration had been the subject of an earlier unsuccessful application to the Jobs Fund. These comprised:

- four projects submitted to the first round of the Jobs Fund that were referred by DEEWR to Infrastructure for IEP stream funding consideration, including one project later assessed by DEEWR under the Get Communities Working stream;
- one project submitted to the first round of the Jobs Fund that was assessed by DEEWR as part of the first competitive round of the Local Jobs stream; and
- one project submitted to DEEWR after the closing date for the first round of the Jobs Fund and before the second call for applications opened on 5 November 2009.

## **Subsequent IEP stream funding consideration for Jobs Fund Round 1 applications referred to the IEP stream by DEEWR**

**3.83** As discussed in paragraphs 2.43 to 2.50, a total of 232 applications to the first round of the Jobs Fund were referred to Infrastructure by DEEWR for assessment under the IEP stream. This was done on the basis that they were infrastructure projects seeking funding in excess of the \$2 million maximum grant available under the Local Jobs and Get Communities Working streams.

Infrastructure did not assess any of those projects against the program guidelines, with departmental records of 11 September 2009 stating that:

All proposals have been returned to DEEWR upon instruction from the Minister's Office, deeming all...proposals ineligible as they were not Government initiated.

**3.84** All 232 applicants were advised by DEEWR on 3 September 2009 that their application was ineligible under the Local Jobs and Get Communities Working streams and that there was no application process for the IEP stream. As also discussed (see paragraph 2.49), it was subsequently identified that 48 of those applications had not, in fact, sought funding exceeding \$2 million on a GST exclusive basis. DEEWR subsequently assessed those applications under the Local Jobs and Get Communities Working streams, with none being supported for funding consideration.

**3.85** Departmental records indicate that a number of unsuccessful applications to the first round of the Jobs Fund had been the subject of funding representations to the Infrastructure Minister. This included at least 14 of the Jobs Fund Round 1 applications unsuccessfully referred by DEEWR to Infrastructure for IEP consideration.<sup>162</sup> In general, the standard response to such representations advised the proponent that there was no application process for the IEP stream. For example:

- this was the advice provided in response to a 10 November 2009 representation to the Infrastructure Minister by the then Parliamentary Secretary for Employment Participation and Federal Member for Blaxland in support of IEP stream funding for two projects being proposed by the Bankstown City Council, including the Bankstown Town Hall Refurbishment project. Council's application to the first round of the Jobs Fund for funding toward that project was referred to Infrastructure for consideration under the IEP stream, with Council being provided with the standard advice advising that there was no application process for the IEP stream on 3 September 2009; and

<sup>162</sup> This includes one project referred to Infrastructure by DEEWR under two separate project identification numbers. A further project that was the subject of representations to the Minister had also been initially referred to Infrastructure by DEEWR after seeking \$12 million for an infrastructure project. The applicant subsequently scaled the application back to seek funding of \$2 million. The revised application was assessed by DEEWR under the Get Communities Working stream and was not recommended. An associated application for \$1.8 million was submitted to Local Jobs Round 2 and was also not recommended.



- as discussed at paragraphs 3.18 to 3.22, the Cairns Road Reserve Redevelopment project submitted to the first competitive round of the Jobs Fund by the City of Casey was also among the 232 projects unsuccessfully referred to the IEP stream and was re-submitted to the Infrastructure Minister for IEP consideration in January 2010 by the LEC for the South Eastern Melbourne Priority Employment Area. As noted, the LEC was provided with the standard response, despite the published guidelines specifically providing LECs with the capacity to submit IEP proposals.

**3.86** However, four projects unsuccessfully referred for IEP consideration as part of the first round of the Jobs fund were subsequently initiated for IEP funding consideration at the request of the Minister's Office, comprising the:

- Three Capes Walk—Multiday Walking Track with Accommodation project in Tasmania;
- Domain Tennis Centre Upgrade project in Hobart, Tasmania;
- Mount Panorama Phase 2 Redevelopment project in Bathurst, NSW; and
- Cloncurry Community Precinct project in Queensland.

**3.87** Infrastructure had returned the applications for each of these four projects to DEEWR during the Jobs Fund round one assessment process. However, when the projects came under consideration for possible IEP funding, Infrastructure did not seek any advice from DEEWR on whether the Jobs Fund application had been assessed and, if so, the results of any assessment.

*Three Capes Walk—Multiday Walking Track with Accommodation project*

**3.88** The Three Capes Walk—Multiday Walking Track with Accommodation project submitted to the first round of the Jobs Fund by the then Tasmanian Department of Environment, Parks, Heritage and Arts had sought funding of \$23.9 million toward a \$29.6 million project to construct a new iconic overnight walk through the Tasman National Park.<sup>163</sup> As the application was seeking more than \$2 million for an infrastructure project, it

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<sup>163</sup> This project had also been proposed for consideration through the initial funding available in 2008–09 under the quarantined heritage component of the Local Jobs stream, but was not shortlisted for submission of a formal proposal.



was referred to Infrastructure by DEEWR for consideration under the IEP stream. The application was not assessed and was returned to DEEWR, which advised the applicant on 3 September 2009 that there was no application process for the IEP stream.

**3.89** On 7 October 2009, the then Premier of Tasmania and then State Minister for Environment, Parks and Heritage jointly wrote to the Infrastructure Minister in support of the Jobs Fund application, and advised that they would be willing to discuss Tasmanian Government involvement in the project with the Minister as required. Following advice from the Minister's Office, Infrastructure undertook an initial assessment of the project based on the original unsuccessful Jobs Fund application.<sup>164</sup>

**3.90** On 6 November 2009, the department advised the Minister that the proposal did not currently meet the Jobs Fund gateway criteria as the project plan stated that construction would not be completed until July 2012; some aspects of the project were not eligible under the IEP stream; and there was risk associated with the lack of confirmation of secured partnership funding. The department did not recommend that, on that basis, the project not proceed to further consideration under the IEP stream. Instead, the Minister agreed to the department's suggestion that it work with the Tasmanian Government to revise the project plan to address these issues. The Minister approved IEP funding of \$12.5 million for a revised project on 25 February 2010.

**3.91** There was considerable subsequent delay in settling the project scope and timeframe, with an Implementation Plan for the project not being agreed with the Tasmanian Government until December 2010. The IEP stream funding for this project is scheduled to be fully paid by 30 June 2012 (the revised completion date for the IEP stream), with the overall project not scheduled for completion until November 2013.

### *Domain Tennis Centre Upgrade project*

**3.92** Tennis Tasmania submitted an application to the first round of the Jobs Fund seeking funding of \$1.83 million for a project to upgrade the Domain Tennis Centre in Hobart. The application was erroneously identified by DEEWR as seeking funding in excess of \$2 million, based on the GST inclusive

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<sup>164</sup> On 20 October 2009, Infrastructure requested that DEEWR re-send the original file for this application to the department as the project was 'on the horizon for IEP'.

funding request of \$2 009 900<sup>165</sup>, and was referred to Infrastructure for consideration under the IEP stream. The application was not assessed and on 3 September 2009 the applicant was provided with the 'ineligible' proforma advice provided to 232 such applicants. DEEWR finalised funding outcomes for its competitive components of round one of the Jobs Fund on 14 August 2009.

**3.93** As discussed at paragraph 2.49, following inquiries from some applicants, it was determined that 48 of the 232 applications referred to the IEP stream had not sought funding in excess of \$2 million (GST exclusive). This included the Domain Tennis Centre Upgrade project. In October 2009, DEEWR assessed the application against the Jobs Fund guidelines under the Get Communities Working stream. The application was assessed as failing to meet the first gateway criterion (requiring that projects be located in areas experiencing high unemployment or a significant rise in unemployment or vulnerability) and was not supported for funding consideration.<sup>166</sup> On 23 October 2009, DEEWR again advised the applicant that its application was unsuccessful, but this time on a different basis.<sup>167</sup>

**3.94** On 24 August 2009, the Hobart City Council Lord Mayor had written to the Infrastructure Minister in support of funding for the Domain Tennis Centre Upgrade project in the upcoming second round of the Strategic Projects component of the RLCIP. The project had been discussed with the Minister at a recent meeting of the Council of Capital City Lord Mayors. On 14 September 2009, Infrastructure advised the Minister's Office that:

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<sup>165</sup> The proposal for funding form required applicants to identify the total project costs and Jobs fund funding amount being sought in both GST inclusive and GST exclusive terms. In deeming projects that sought more than \$2 million ineligible for funding consideration under the Local Jobs and Get Communities Working streams, DEEWR determined that this decision should be based upon the GST exclusive amount sought. The program guidelines stated that funding would be based on the budget submitted in the proposal, including any GST applicable, but had not identified whether the maximum grant of \$2 million would relate to the GST inclusive or GST exclusive amounts.

<sup>166</sup> Hobart is not located in a Priority Employment Area and DEEWR assessed the case made against this criterion as being 'weak'. This issue is discussed further at paragraphs 3.126 to 3.133.

<sup>167</sup> The second unsuccessful letter advised the applicant that: 'As a result of a recent audit of our records it has been discovered that you have been inadvertently sent the incorrect letter regarding the outcome of your application under the Jobs Fund. I apologise for this...There was a strong response to the call for proposals for Round One of the Jobs Fund and the field was highly competitive...Each proposal was considered on its merits and in comparison with other proposals received...Following the assessment process, we regret to advise that on this occasion your organisation's application for Domain Tennis Centre Redevelopment has been unsuccessful.'

I recall that the Tas Tennis Centre in Hobart was being considered as a possible project for IEP funding and that the Tas government was expected to write to the Minister, following which we would seek his agreement for initial appraisal. We have received no correspondence from the Tas government and have not taken further action.

However, I have now become aware that Tasmanian Tennis Inc had separately put in an application for \$1.8m through the Jobs Fund as an IEP project. As such they will now have received a letter advising them this was unsuccessful. I bring this to your attention in case you are still expecting a possible IEP project from the Tas Government—if so you may wish to confirm with your contacts. Alternatively, we can pursue, or if this is not something the Minister was looking to consider we will let the matter rest. I'm not aware of any response from Tasmanian Tennis.

**3.95** The Infrastructure Minister signed a response to the Lord Mayor's letter on 22 October 2009 advising:

As we foreshadowed in our discussions, the guidelines for the next round of the Regional and Local Community Infrastructure Program (RLCIP) have just been released. Applications for the competitive component are due on 15 January 2010, and successful projects are expected to be announced during the first quarter of 2010. I anticipate strong competition for funding, and welcome all high quality applications for the Government to consider on a merit basis.

**3.96** As discussed at paragraphs 3.10 and 3.65, Hobart City Council applied to the second round of the RLCIP Strategic Projects component for \$1.09 million for the Domain Tennis Centre Upgrade project (to be completed by 1 December 2010). As also discussed, on 12 May 2010 (the same day that funding decisions were made in respect to the second round of the Strategic Projects component), Infrastructure was asked by the Minister's Office to undertake an initial assessment of two unsuccessful Strategic Projects applications for possible IEP stream funding, including the Domain Tennis Centre Upgrade project. This project had been assessed as being a non-compliant application to the second round of the Strategic Projects component (due to important information not being included with the application). IEP stream funding of \$1.2 million for the project was approved in July 2010.

#### *Mount Panorama Phase 2 Redevelopment project*

**3.97** Bathurst Regional Council's application to the first round of the Jobs Fund, seeking funding of \$4 million towards its Mount Panorama Phase 2 Redevelopment project, was similarly among the 232 applications

unsuccessfully referred to the IEP stream by DEEWR and, as a result, not assessed against the program guidelines. Bathurst Regional Council was provided with the standard unsuccessful letter for those applicants by DEEWR on 3 September 2009, which advised that there was no application process for the IEP stream of the Jobs Fund.

**3.98** This project had been one of a number of unsuccessful applications submitted to the first round of the Jobs Fund by Bathurst Regional Council, which is not located within a Priority Employment Area. On 2 October 2009, Council was provided with a verbal debriefing by DEEWR on the reasons for its applications being unsuccessful, with the departmental file note recording the following:

Question: We had 4 or 5 applications that missed out altogether, did we fail the criteria or is it in the selection process?

Response: *The applications were assessed across different streams in different departments (NBP-Infra, Heritage). Jobs Fund was part of the stimulus package and focused on job creation for the unemployed whilst demonstrating a community benefit and improving amenity.*

The proponent commented that the issue for Bathurst is not employment, as it has low unemployment, but it has a skill shortage.

Response: *If projects targeted disadvantaged job seekers in non Employment Priority Areas they still had a strong case for Jobs Fund money. Approximately 25% of funded projects were located in non Employment Priority Areas.*

The proponent indicated that the Mt Panorama project would use 150-200 unskilled labourers for washing down the dirt. The rest of the work infrastructure, drainage, etc would be undertaken by skilled workers. The proponent also indicated that they are applying for funding from the state as well.

Response: *It is expected that Round 2 will be announced shortly. Check the DEEWR website for further information.*

Proponent's Response: If in an area that only receives 25% of funding (ie non priority area) it will be difficult to get any of the money.

**3.99** On 18 January 2010, Bathurst Regional Council submitted a revised application for IEP stream funding for the Mount Panorama Phase 2 Redevelopment project to Infrastructure, seeking increased funding of

\$5 million toward total project costs of \$14.68 million.<sup>168</sup> In submitting the application, Council advised the department that:

Please find enclosed application for funding under the Infrastructure Employment Projects-\$150 million program.

Council has had discussion with the Minister for Department of Infrastructure, Transport, Regional Development and Local Government (*sic*) in relation to the Mount Panorama Upgrading Project.

Following these discussions Council has had further contact with various government departments and have been advised to make an application for funding of this project under the above program.

**3.100** On 22 January 2010, the department referred the application to the Office of the Infrastructure Minister, advising that Council had applied for funding for the project under the first round of the Jobs Fund and that:

...As the amount sought exceeded the eligibility amount (<\$2m), the application was forwarded for consideration under the Jobs Fund-IEP stream. However, as IEP is non-application based, an unsuccessful letter was sent from DEEWR to the Council on 4 September 2009 [*sic*].<sup>169</sup> (*Note: A further 231 applications were of the same situation*).

A Community Cabinet Meeting was held in Bathurst early November 2009, whereby the Council raised the project with the Minister directly.

Subsequently, an application was submitted this week directly to the Department for consideration under IEP.

...Can you please advise if you would like the Department to forward the application to the Minister for his consideration under IEP.

(As requested, I have attached the standard unsuccessful letter for your information).

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<sup>168</sup> Council submitted the application using the application form from the second round of the Strategic Projects component of the RLCIP, but confirmed to the department on 2 February 2010 that it was seeking funding through the IEP stream (having already submitted a different project to the second Strategic Projects round). The department's February 2010 advice to the Infrastructure Minister on the outcome of its initial assessment of the proposal advised that: 'Bathurst Regional Council indicated to the Department that an IEP specific application form could not be located on the Department's website, hence their use of the RLCIP-SP form.'

<sup>169</sup> The unsuccessful letter to Council from DEEWR was actually dated 3 September 2009.

**3.101** On 25 January 2010, the Minister's Office advised the department:

As discussed last week, could you pls progress consideration of this application (tentatively) for consideration by the Minister.

**3.102** Infrastructure undertook an initial assessment of the application against the Jobs Fund program guidelines in January 2010. Advice prepared for the Minister in February 2010, which sought the Minister's agreement to the department seeking further information from Council and commissioning an independent viability assessment of the project, advised that:

The Bathurst Regional Council has advised the Department that during discussions with you at the Bathurst Community Cabinet meeting in early November 2009 you indicated that you would ask for further information on this proposal. Your Office has requested we provide advice on the proposal.

**3.103** The department's initial assessment was that the project may not satisfy the first gateway criterion as a result of the project location not being within an identified employment priority area or in an area experiencing vulnerability due to the economic downturn. The department noted that the Bathurst region's unemployment rate of 4.3 percent was below the national (5.8 percent) and state (6.1 percent) average unemployment figures. However, the department further advised:

However, you may wish to consider other factors in your assessment of the employment vulnerability of the region.

**3.104** On 6 July 2010, Council wrote to the department seeking advice on the outcome of its application for IEP stream funding. The department's response of 27 July 2010 advised Council that:

As you would be aware, the federal election has been called for 21 August 2010 and as the Government is currently in caretaker period it is unable to commit to future funding proposals. No decision had been taken on your proposal prior to the commencement of the caretaker period.

Should you wish to continue to seek funding for this proposal this will need to be taken up with the incoming Government.

**3.105** In submitting the proposed response to Council to its Secretary for signature, the department advised that:

The Department provided further information on 5 February 2010...and requested approval to undertake further investigations and commission an independent viability assessment. The Department did not receive a formal

decision from the Minister prior to the caretaker period commencing, however it is understood that the Minister does not wish to proceed with the project.

**3.106** In February 2011, the Infrastructure Minister agreed to a recommendation from his department that the Mount Panorama Phase 2 Redevelopment project not be progressed further for IEP stream funding given the lack of available funds (see further at paragraphs 4.18 and 4.21).

### *Cloncurry Community Precinct*

**3.107** Cloncurry Shire Council's application to the first round of the Jobs Fund, seeking funding of \$2.5 million towards its Cloncurry Community Precinct project, was similarly among the 232 applications unsuccessfully referred to the IEP stream by DEEWR and, as a result, not assessed against the program guidelines. Cloncurry Shire Council was provided with the standard letter by DEEWR on 3 September 2009 advising that there was no application process for the IEP stream and that the project was ineligible under the other streams due to seeking more than \$2 million in funding.

**3.108** As discussed at paragraphs 3.70 to 3.75, the project had also been the subject of unsuccessful applications to both the first and second funding rounds of the Strategic Projects component of the RLCIP. As also discussed:

- the project was referred to Infrastructure for initial assessment for funding of \$2.4 million under the IEP stream on 3 May 2011 (after the Minister had agreed with the department's recommendation that another project under IEP funding consideration for \$2.4 million not be approved); and
- in June 2011, the Minister agreed to the department's recommendation that the project not be considered further under the IEP stream, and instead a new administered item be established outside of the IEP stream with \$2.4 million in unallocated funds from the IEP stream, to be used for the Cloncurry Community Precinct project.

### **IEP stream funding consideration for an unsuccessful Round 1 application assessed by DEEWR under the Local Jobs stream**

**3.109** Of the 377 applications to the first round of the Jobs Fund that were allocated by DEEWR to the competitive general component of the Local Jobs stream for funding consideration, 313 were unsuccessful. Of those, one application was subsequently initiated for IEP stream funding.



**3.110** In May 2009, the Uniting Church in Australia Property Trust (NSW) submitted an application to the first round of the Jobs Fund seeking \$2 million towards a \$7 million project to replace the physical infrastructure of the Wayside Chapel located in Kings Cross, Sydney. The project was allocated for consideration under the general component of the Local Jobs stream by DEEWR.

**3.111** DEEWR assessed that the application met, to either a 'Strong' or 'Very Strong' level, two of the three common Jobs Fund gateway criteria. The original assessment was that the application had made a 'Weak' case against the first gateway criterion<sup>170</sup> due to not being in a Priority Employment Area or an area unduly affected by the economic downturn. The assessment was amended to 'Suitable/Adequate' (a rating of three under the zero to five scale employed by DEEWR), but the rationale for that revision was not documented.

**3.112** DEEWR's assessment review committee was responsible for considering the assessments prepared in relation to each application and formulating funding recommendations for consideration by the departmental decision-maker. In light of the extent to which the first call for applications to the Jobs Fund was oversubscribed, the committee decided to prioritise consideration of projects located in Priority Employment Areas, which had represented about 60 per cent of the proposals assessed by DEEWR.

**3.113** At its 30 July 2009 meeting, the committee agreed not to recommend projects that were not in priority areas, given that all available funding for round one was taken up on projects already recommended in priority areas. At the same meeting, the committee considered the Wayside Chapel Redevelopment project and agreed not to recommend the project for funding.

**3.114** Also 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 to the \$100 million that had been announced as being available. In advising the then Minister for Employment Participation of the outcome of round one, DEEWR advised that:

Due to the large number of bids in Priority Areas and the Victorian Bushfire region, the Assessment Review Committee (ARC) considered these proposals first, and within these gave priority to projects with high job

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<sup>170</sup> This criterion required that projects be in areas experiencing high unemployment, a significant rise in unemployment or vulnerability.



creation/retention. As the quality of these proposals was high, the Priority Areas and the Victorian bushfire region projects exhausted in excess of the \$100m available.

**3.115** The department further advised the Minister that:

As per the Keep Australia Working report recommendation, it is proposed that future funding be targeted to the 20 Priority Areas. As the total first round funding has been assigned only to Priority Areas, there may be criticism from organisations that are not in Priority Areas. Given the large volume of proposals we have received from outside Priority Areas, many of which are high quality, we recommend that you agree to around \$20m to be allocated to projects outside of the Priority Areas over coming weeks.

**3.116** On 7 August 2009, following discussions with DEEWR, the then Minister noted the results from the first call for proposals from the Jobs Fund and, rather than agreeing that a further \$20 million be allocated for quality projects from outside the Priority Employment Areas (prior to the second call for proposals), advised DEEWR to:

...please re-assess on the basis of whole country rather than only [*Priority Employment Areas*]. If applications merit it, please allocate a further \$40 million to this round.

**3.117** The assessment review committee subsequently considered projects from non-Priority Employment Area locations, as well as highly rated but previously unfunded projects in some Priority Employment Areas, and made additional funding recommendations to the departmental delegate. Projects already recommended and approved were not re-considered. As a result, a total of 41 projects not in a Priority Employment Area were approved for funding totalling \$26 million under the first round of the general components of the Local Jobs and Get Communities Working streams. The Wayside Chapel Redevelopment project was not considered by the assessment review committee for inclusion in the additional projects approved for funding due to its score against the first gateway criterion being too low. The committee had also expressed reservations about the level of committed partner funding and whether the project could, at that time, be considered ready to start.

**3.118** On 1 October 2009, DEEWR provided the applicant with a verbal debrief on its unsuccessful application. On 13 October 2009, the applicant met with the then Minister for Employment Participation to discuss the unsuccessful application, future funding opportunities and to seek advice in relation to their prospects of securing future funding. Subsequently, on

4 November 2009, the applicant wrote to the then Prime Minister asking that, in order for the project to be able to proceed, he find a way for the Australian Government to match the \$2 million contribution to the project that had been recently announced by the state government. The project was then referred to Infrastructure for assessment of possible funding under the IEP stream.

**3.119** To inform the IEP stream assessment of the project, in November 2009 Infrastructure was provided with a copy of the May 2009 application to the Jobs Fund, but Infrastructure did not seek any information from DEEWR on its assessment of this application. On 12 November 2009, the applicant increased its funding request from \$2 million to \$3 million, with the amount that had been planned to be borrowed from the Uniting Church being reduced from \$1.5 million to \$500 000 due to concerns that servicing the higher level of debt would put the organisation under ‘significant financial pressure’.<sup>171</sup> Also on 12 November 2009, Infrastructure advised the Infrastructure Minister that the department’s initial view was that the proposal met the three gateway criteria and recommended that it be subject to a full assessment. This recommendation was agreed and, on 13 November 2009, the Minister announced that the Australian Government had agreed in principle to contribute \$3 million towards the redevelopment project.<sup>172</sup>

### **IEP consideration for a project submitted to the Jobs Fund between the closing of round one and opening of the second round**

**3.120** As discussed at paragraphs 2.38 to 2.42, the program guidelines were published on the same day as the then Minister for Employment Participation’s 18 April 2009 announcement of a public call for applications to

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<sup>171</sup> The due diligence and risk assessment element of DEEWR’s assessment of the application had concluded that the financing arrangements represented a ‘potential weakness’ with the application as the pledged donations may have been affected by the economic downturn.

<sup>172</sup> The Jobs Fund application had been submitted by the Uniting Church in Australia Property Trust (NSW), trading as The Wayside Chapel. In its December 2009 recommendation to the Minister that he approve IEP funding for this project, the department had identified that, in light of the decision of the High Court in *Pape v Commissioner of Taxation and Anor* [(2009) HCA 23; (2009) 83 ALJR 765; (2009) 257 ALR 1], the Commonwealth’s Constitutional power to provide IEP funding directly to the project proponent was unclear and, to provide certainty, recommended that agreement be sought from the NSW Government to act as funding recipient on behalf of the Church. The Secretary of the department subsequently reviewed this advice and on 21 December 2009 advised the Minister that the risk of a challenge to the Commonwealth’s constitutional power to make a payment directly to the Wayside Chapel was ‘very low’ and that it was valid and open to the Minister to fund the project directly once he had considered the low level of risk involved, as well as having regard to how the funding proposal formed part of the Government’s response to the global financial crisis. On the basis of this revised recommendation, funding was approved for payment directly to The Wayside Chapel.

the first round of the Jobs Fund that would close on 22 May 2009. However, the guidelines made no reference to the 22 May 2009 closing date or to the conduct of closed funding rounds. Nor did the guidelines clearly identify whether the call for proposals also related to infrastructure projects being proposed for IEP stream funding. Instead, the guidelines advised that:

The Australian Government will seek submissions for projects from May 2009. From 1 July 2009, proponents may submit proposals at any time.

**3.121** As a result of the advice set out in the published guidelines, a number of applications for Jobs Fund funding were submitted to DEEWR after the 22 May 2009 advertised closing date for round one. Initially, DEEWR determined that all such applications would be accepted and would be considered in the next round of the Jobs Fund. As discussed at paragraphs 2.55 to 2.58, separate revised guidelines were issued in November 2009 in respect to Round 2 of each of the Local Jobs and Get Communities Working streams to reflect a re-targeting of each stream following the Keep Australia Working final report. As a result, applicants that had submitted Jobs Fund proposals after the closing date for the first round, and who had not had their proposal accepted for funding consideration by one of the administering departments, were provided with a proforma email by DEEWR on 5 November 2009, which referred the applicant to the revised guidelines issued for the second round advised that:

Organisations who submitted an application after the closing date for Round One, on 22 May 2009, should review their proposal in line with the new guidelines and determine if they wish to resubmit.

**3.122** Of the nearly 120 applicants that received the proforma email, one was subsequently initiated for IEP stream funding consideration.

**3.123** On 30 September 2009, the Adelaide City Women's Social & Soccer Club Inc. (Adelaide City Women's Football Club Inc) had submitted a proposal to DEEWR seeking Jobs Fund funding of \$118 500 for its Construction of Sporting Club Clubrooms project. On 5 November 2009, the club was provided with the proforma email by DEEWR regarding the need to resubmit proposals in line with the new guidelines in order to be considered for funding under the second rounds of the Local Jobs and Get Communities Working streams. The club did not submit an application to the second round of either competitive stream.

**3.124** In January 2011, the Infrastructure Minister's Office requested that Infrastructure follow up on a proposal for IEP stream funding to allow the completion of the Adelaide City Women's Football Club Clubrooms. The documentation initially provided to the department involved a letter dated 6 August 2010 from the Club President<sup>173</sup> which listed parts of the clubroom development works that were still to be performed (totalling \$82 350) and advised:

The approved building is at lockup stage but there remains further work to be performed in order to complete the project. The project will not be completed unless further funding is obtained.

**3.125** Following discussions with the Club and the owner of the building, Adelaide City Council, a completed 'request for information' form was received from Council on 4 February 2011 which indicated that funding of \$239 200 was required to complete the Clubrooms, of which \$116 400 was being sought from the Australian Government. However, based on the information provided, it was subsequently identified that the same amount of funding had also been sought through the state government's Office for Recreation and Sport and had recently been secured. On 14 February 2011, Infrastructure wrote to the Adelaide City Council advising that, in light of the funding for the proposal that had recently been secured through the state government, the department would not be progressing with the assessment of the proposal.

### **Inconsistencies between the assessments under different Jobs Fund streams**

**3.126** In its assessment of unsuccessful applications to the first round of the Jobs Fund referred for IEP stream consideration, Infrastructure did not consider the findings of any assessments that had already been undertaken of the relevant projects under Jobs Fund program guidelines. Nor did Infrastructure make any attempt to reconcile any differences between assessments undertaken in relation to the same project, despite the gateway criteria set out in the program guidelines being common across all streams of the Jobs Fund.

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<sup>173</sup> The recipient of the letter was not identified.

**3.127** For example, as discussed at paragraph 3.93, in October 2009, DEEWR assessed Tennis Tasmania's May 2009 Domain Tennis Centre Upgrade project application to round one of the Jobs Fund. That application had sought funding of \$1.83 million toward a \$4.3 million project to redevelop the Domain Tennis Centre in Hobart. The application had claimed that the project would create 30 short term jobs (less than six months) and 30 long term jobs (greater than six months) and create and retain 150 work experience places.

**3.128** In assessing applications against the Jobs Fund gateway criterion, DEEWR approach was to provide the decision-maker with a statement, through a rating and scoring approach, identifying the extent to which a proposal had satisfied each criterion. The Domain Tennis Centre Upgrade project application was assessed by DEEWR as meeting to a 'suitable/adequate' level<sup>174</sup> gateway criteria two and three, but failing to meet the first gateway criterion and was not supported for funding consideration. DEEWR assessed that the application had made a 'weak' case against that criterion (a score of two), on the basis that it had addressed some elements of the criterion inadequately and had not clearly demonstrated that the project would be effective in this location. DEEWR noted that the project was not located in a priority region and, according to the Regional Matrix<sup>175</sup>, the project location had an unemployment rate of five per cent (which was average) and an average labour force rating. The DEEWR assessment concluded that the proponent's claims would have been strengthened by:

- specifying which target group of job seekers would be assisted by the project;
- demonstrating linkages with employment service providers to assist with recruitment and support of job seekers;
- providing a strategy to achieve the level of job creation claimed;
- including descriptions of the work for the 150 work experience positions that are claimed to be created and retained during the project,

<sup>174</sup> This was a score of three on the zero to the five scale used by DEEWR, which was seen as the minimum requirement in order for a project to be considered any further for funding.

<sup>175</sup> This matrix had been developed by DEEWR to give an assessment of the relative employment strength of various regions, based upon a number of factors, and was provided to all Jobs Fund administering departments for use in the assessment of applications under each stream against the common gateway criterion one requiring that project be located in an area experiencing high unemployment, a significant rise in unemployment or vulnerability.

and what training would be made available to the participants; and by indicating if these jobs are directly (construction) or indirectly (event staff) related to the project;

- indicating if the jobs will be ongoing (longer than one week); and
- providing a more detailed project plan which includes recruitment and training for the participants.

**3.129** The proposal provided to Infrastructure by Hobart City Council in May 2010, in response to a request for information for IEP stream funding, sought \$1.19 million toward a total project cost of \$4.64 million and related to stage three of the redevelopment project (primarily involving fit-out works, painting and electrical and plumbing requirements). The proposal advised that stage one was complete and stage two was underway. In response to the request to provide a brief description on how the proposal would deliver direct employment benefits in both the long and short term, the completed request for information had advised:

It is expected that approximately 29 jobs will be created during the construction and fit out of the Domain Tennis Centre. In addition to this there is likely to be at least 3 long term employment opportunities as a result of this project.

Although the Centre is located in the Denison electorate, employment opportunities will be created for those in the Franklin and Lyons electorates as employees are likely to be sourced from across the Greater Hobart and Southern Tasmanian regions.

In addition to these direct employment benefits the likelihood of attracting further high profile events to Hobart may have positive employment implications across businesses in the Hobart region, particularly tourism and hospitality.

**3.130** In relation to whether the proposal met the requirement under Jobs Fund gateway criterion one that it be a project in an area experiencing high unemployment, a significant rise in unemployment or vulnerability, Infrastructure's August 2010 assessment stated:

The project is located in Hobart, Tasmania (Greater Hobart), which has an unemployment rate of 4.8%, which is 0.8% below the national rate of 5.6% (December 2009 DEEWR Small Area Labour Markets Report). The DEEWR Regional Unemployment Matrix—April 2009—Rates Greater Hobart as Average.



**3.131** Infrastructure did not seek or obtain any further information from Council in relation to the employment claims set out in the proposal provided, with the final assessment simply noting:

The number of jobs created appears consistent with a project of this size.

**3.132** In recommending to the Infrastructure Minister in June 2010 that he approve IEP funding for the project, Infrastructure advised the Minister that:

The Department's assessment against the Jobs Fund Guidelines and IEP eligibility criteria...found that it clearly meets two out of the three Gateway Criteria and meets all other criteria and requirements. The project does not clearly meet Gateway Criteria 1 relating to employment vulnerability. Unemployment in Greater Hobart is 4.8 per cent, which is 0.6 percent below the national average (DEEWR Small Area Labour Markets, December Quarter 2009). However, this criteria is subjective and in making a decision on this criterion you may wish to consider the vulnerability in Tasmania more generally and that the completion of this project will ensure funding of this event for a further two years, protecting employment generated by the event and an injection of funds into Tasmania's economy for 2012 and 2013.

The Project is expected to provide up to 29 short-term construction jobs, and the Council has advised that three new jobs will be created post-construction.

**3.133** Infrastructure's assessment of projects IEP stream funding is further examined in Chapter 4 of this report.

## **Additional funding approved through IEP stream for a 2007 election commitment**

**3.134** One of the 19 projects considered for IEP stream funding was initiated to provide additional funds to meet the increased costs of a 2007 election commitment that had been allocated to the Better Regions program for administration. The Better Regions program was established solely to fund regional election commitments made by the Australian Labor Party in the context of the 2007 Federal election campaign.<sup>176</sup>

**3.135** Better Regions program funding of \$8 million was approved in April 2009 to build a 12 000 capacity multi-use stadium in Mackay, including a main lighted rectangle sporting field with facilities for spectators and participants. In

<sup>176</sup> The administration of that program was examined in ANAO Audit Report No.24 2010–11, *The Design and Administration of the Better Regions Program*, Canberra, 27 January 2011.

late May 2010, the proponent advised Infrastructure of an expected shortfall in funding of \$2.5 million for the completion of the project following the results of a tender process. The guidelines for the Better Regions program stated that requests from proponents for additional funding would not be approved, but that changes to the partnership arrangements or requests to change the scope of the project that did not involve the provision of additional funding by the Commonwealth would be considered. Accordingly, as the proponent was unable to access additional funding, it sought and was granted (on 16 June 2010) a variation of scope to the project being funded under the Better Regions program.

**3.136** On or about 8 June 2010, Infrastructure was asked by its Minister's Office to commence consideration of this project as a candidate for IEP stream funding. IEP stream funding of \$2.5 million was subsequently approved on 14 July 2010. The project is not located in a Priority Employment Area.

## Conclusions

**3.137** An early and important consideration in the design of a grant program is establishing how to structure the process by which potential funding recipients will be identified and are able to access the program. Under the enhanced grants administration framework introduced with effect from 1 July 2009, the CGGs require that, unless specifically agreed otherwise by the Government, competitive, merit-based selection processes should be used, based upon clearly defined selection criteria.<sup>177</sup>

**3.138** It was decided that the IEP stream would operate through a non-competitive and closed process of deciding which projects would be considered for possible funding. The published program guidelines stated that projects would be 'initiated' by the Australian Government. However, the guidelines did not outline the avenues that were available to project proponents to bring a promising project to the Government's attention or otherwise articulate the process by which it would be decided which projects would be considered for IEP funding.

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<sup>177</sup> Commonwealth Grant Guidelines, op. cit., p. 29.



**3.139** In the normal course, it would be expected that the administering department would develop, for consideration by decision-makers, an implementation strategy that outlines roles and responsibilities, identifies any risks to the achievement of program objectives and how they could be managed, and seeks to clarify any areas of uncertainty. However, Infrastructure did not develop an implementation strategy for the IEP stream. In the absence of such a strategy, the department interpreted the statement in the program guidelines that candidate projects would be government initiated to mean that the department did not have a role in assisting the Government to identify potential candidates for funding consideration. As a consequence, the department did not assist its Minister with the early identification and targeting of promising projects that could be expected to deliver timely and effective economic stimulus as well as providing long-term community benefits.

## Recommendation No.1

**3.140** ANAO recommends that, in administering grant programs that do not involve an open call for applications, the Department of Infrastructure and Transport develop, for consideration by the responsible Minister, an implementation strategy that clearly identifies the avenues through which candidate projects are able to be identified, and the department's role in this process.

**3.141 Infrastructure response:** Agreed. Infrastructure advised ANAO that:

The department accepts Recommendation No. 1 in relation to the administration of grant programs that do not involve an open call for applications. The department notes that, more generally, new programs being developed within the department are subject to implementation plans which will inform advice to the Minister about the approach to operational matters and improving clarity of program objectives and accountability requirements.

**3.142** The lack of clarity in the guidelines about the manner in which candidates for IEP stream funding were to be identified led to a considerable number of inquiries being received from state government entities, various local government authorities, community groups and private sector entities. All but two of the projects accepted for initiation as a possible IEP stream project had been the subject of a representation to Infrastructure, the

Infrastructure Minister, Treasurer or then Prime Minister concerning possible Commonwealth funding.<sup>178</sup> Records of the initiation process did not indicate the criteria applied in deciding which representations would result in a project being accepted for initiation under the IEP stream, and those representations that were not to be considered. In this context, there were numerous other representations that were unsuccessful in having a project considered for IEP stream funding notwithstanding that they had been made through similar channels and/or at a similar time to those made in relation to projects that were initiated for IEP stream funding consideration.

**3.143** An important source of projects considered for possible IEP stream funding was unsuccessful applications to other economic stimulus programs.<sup>179</sup> Giving consideration to the possibility of funding some of these applications under the IEP stream was reasonable given the closely aligned stimulus objectives of the related programs. This approach also offered a potentially efficient and cost-effective means of quickly identifying a population of candidate projects (particularly having regard for the resources already invested by applicants in preparing applications and departments in assessing the applications against the same or similar criteria), while not limiting the Government's prerogative to elect to consider other projects that may come to its attention through other channels. Nevertheless, to the extent that any of these projects were to be considered for IEP stream funding, it would be appropriate that there be a transparent process employed to identify which of the large number of candidate projects were the most promising in terms of the published Jobs Fund guidelines and would, therefore, progress to being initiated for an IEP assessment.

**3.144** However, the proponents of the ten previously unsuccessful applications that were invited to submit information that would be considered for IEP stream funding were afforded an opportunity not made known to other unsuccessful applicants to these related stimulus programs, and denied

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<sup>178</sup> See footnote 110.

<sup>179</sup> In four instances, the related economic stimulus program was the Strategic Projects component of the RLCIP (one of these had applied to both rounds). One further project had been the subject of an unsuccessful application to both the first and second rounds of the Strategic Projects component, as well as to the first round of the Jobs Fund. In another instance, a project was an unsuccessful application to both the second round of the Strategic Projects component of the RLCIP and the first round of the Jobs Fund. A further three projects had also been the subject of unsuccessful applications to the first round of the Jobs Fund. In one further instance, an application to the Jobs Fund was submitted through DEEWR after applications for the first round had closed, but before applications for the second round had opened.

to some other unsuccessful applicants that had similarly tried to have their project considered for IEP stream funding. In this respect, the processes that were employed to select such projects for IEP consideration did not involve the department analysing unsuccessful applications to related stimulus programs in terms of the Jobs Fund target areas and gateway criteria, in order to determine a population of known potential candidate projects for government consideration. Accordingly, the approach adopted did not focus IEP consideration on those unsuccessful applications that could be expected to best promote the achievement of the Jobs Fund program outcomes, having regard to the published program criteria. This was the case notwithstanding that:

- the related economic stimulus programs had been significantly oversubscribed, with many unsuccessful applicants having been nevertheless rated highly in the relevant departmental assessment process. In addition, a significant number of unfunded applications to related economic stimulus programs were located in a Priority Employment Area and had indicated the project would be completed by the original Jobs Fund end date of 30 June 2011. Indeed, there was the potential for the IEP stream to have been fully allocated by adopting a systemic approach to selecting the most promising of those applications for IEP stream funding consideration; and
- delays in projects being identified for IEP stream consideration had resulted in delays in the spending of program funding, which in turn has led to rephasings of planned expenditure and the IEP stream end date being extended to 30 June 2012.

**3.145** In addition, no attempts were made to actively involve the Local Employment Coordinators in the identification of projects located in Priority Employment Areas that may have been suitable for consideration for IEP stream funding. This was notwithstanding that:

- the Local Employment Coordinators were announced as being a core part of the Commonwealth's infrastructure and stimulus measures, in order to focus Commonwealth resources on the 20 Priority Employment Areas (being those areas identified by DEEWR analysis as those areas with the greatest need for direct assistance, as acknowledged in the Keep Australia Working Interim Report—see paragraph 2.56); and

- the Jobs Fund guidelines had explicitly provided for Local Employment Coordinators to play a role in identifying candidate projects for IEP stream funding.<sup>180</sup>

**3.146** Against this background, in June 2011, Finance advised ANAO that:

Agencies should have regard to the seven key principles of grants administration for all forms of granting activity. This is provided for in the CCGs. For example, Section 2, Scope and Objectives, states ‘a granting activity can take a variety of forms, including a payment made on a one-off or ad hoc basis, payments made as a result of competitive assessment, or provided specified criteria are satisfied’.

Whilst the CCGs provide for various forms of granting activity, the guidance under the seven key principles of grants administration focuses more strongly on competitive merit based processes. We see the merit of clarifying the application of these principles to all grant activity.

## Recommendation No.2

**3.147** ANAO recommends that the Department of Finance and Deregulation improve its existing guidance on grants administration so as to promote the effective application of the seven key principles outlined in the *Commonwealth Grants Guidelines* to all forms of granting, including where a grant program operates through a non-competitive and/or a non-applications-based process.

**3.148 Finance response:** Agreed. In commenting that it supported the recommendation, Finance advised ANAO in September 2011 that:

While the CCGs provide for various forms of granting activity, the guidance under the seven key principles for grants administration focuses more strongly on competitive merit-based selection processes and can therefore be improved.

Finance is planning to update the CCGs to provide for recent amendments to the *Financial Management and Accountability Act 1997* and related Regulations, and the new Expenditure Review Committee processes relating to the approval of program guidelines. As part of this process, we will also update the CCGs to provide an appropriate balance between the application of the CCGs to competitive merit-based selection processes and their application to non-competitive and non-application-based processes.

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<sup>180</sup> On at least one occasion, a Local Employment Coordinator did seek to have a project considered for possible IEP stream funding. However, contrary to the terms of the published program guidelines, no consideration was given to the merits of this project in terms of the Jobs Fund guidelines.

## 4. Project assessments and approvals

*This chapter examines the assessment and approval processes undertaken in respect to the 19 projects formally considered for possible IEP stream funding.*

### Introduction

**4.1** 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>181</sup>

**4.2** The provision by agencies of advice on the merits of proposed grants 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). This approach does not affect a Minister's right to decide on the awarding of grants, but 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.<sup>182</sup>

**4.3** The published Jobs Fund guidelines stated that, for the IEP stream, funding decisions would be made by the Infrastructure Minister<sup>183</sup> or his

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<sup>181</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>182</sup> *Strategic Review of the Administration of Australian Government Grant Programs*, op. cit., p. 7.

<sup>183</sup> Infrastructure's internal procedures manual for the IEP stream outlined that, at the Minister's discretion, the SPBC may also be asked to 'endorse expenditure for potential IEP proposals'. Of the 19 projects considered for possible IEP stream funding, eight had been referred to either full Cabinet or the SPBC. On each occasion, the proposal was referred to Cabinet/SPBC after the department had been asked to commence assessing the proposal for possible IEP stream funding, but before the Infrastructure Minister had made a decision to approve the spending of public money on a proposal. In six instances, the Minister has subsequently approved IEP stream funding. In the case of one project given in-principle support by the SPBC, the Minister subsequently agreed with a departmental recommendation that he not approve funding, and in the remaining instance departmental assessment work had not yet been completed to enable a funding decision to be made as at 30 June 2011.

delegate, informed by advice from Infrastructure.<sup>184</sup> Infrastructure's procedures manual stated that the department would provide advice to the Minister at two points:

- an initial appraisal of a project concept referred to the department by the Minister or his Office; and
- a full assessment, incorporating an analysis of risks and assessment of projects against the Jobs Fund gateway criteria and target areas. The purpose of the full assessment was to enable the department to make a recommendation to the Minister as to whether funding should be approved. It was at this point that the statutory function (under FMA Regulation 9) of approving a spending proposal occurred.

**4.4** As of June 2011, 12 projects had been approved for IEP stream funding, for amounts ranging from \$389 000 to \$20 million per project. Table 4.1 sets out the assessment and approval timeframes for those projects.

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<sup>184</sup> Similar advice was provided in the guidelines in respect to other elements of the Jobs Fund. The power to make funding decisions under the Local Jobs and Get Communities Working elements administered by DEEWR was delegated to a departmental official. In the remaining instances, including the IEP stream, the relevant Minister retained the decision-making function.

**Table 4.1****Assessment and approval timeframes for projects approved for funding under the IEP stream of the Jobs Fund to June 2011**

Project	Assessment initiated	Funding approval	Elapsed time (days)	Approved funding (\$)
Queensland Symphony Orchestra Co-Location	15 July 2009	19 Oct 2009	96 days	9 000 000
Rugby League Central	31 July 2009	12 July 2010	346 days	10 400 000
Fitzgerald River National Park Road Upgrade and Walk Trail	9 Sep 2009 <sup>1</sup>	10 Dec 2009	92 days	20 000 000
Three Capes Walk-Multiday Walking Track with Accommodation	20 Oct 2009	25 Feb 2010	128 days	12 500 000
The Wayside Chapel Redevelopment	6 Nov 2009 <sup>1</sup>	21 Dec 2009	45 days	3 000 000
Gladstone Airport Terminal Upgrade	29 Jan 2010 <sup>1</sup>	16 Feb 2010	18 days	5 500 000
MCA Redevelopment and Creation of a National Centre for Creative Learning	16 Mar 2010	27 April 2010	42 days	13 000 000
Wandong Memorial Stadium	6 May 2010	15 July 2010	70 days	2 250 310
Community Camping and Day Visitor Sites Upgrade	12 May 2010	23 June 2010	42 days	2 633 566
Domain Tennis Centre Upgrade	12 May 2010	5 July 2010	54 days	1 200 000
Mackay Multi-Use Stadium	8 June 2010	14 July 2010	36 days	2 500 000
Sapper Jacob Moerland Memorial Skate Park	29 June 2010	14 July 2010	15 days	389 000
Note 1: For these projects, as the department did not document the initial request from the Minister's Office for the project to be assessed for IEP funding, the date used in this table reflects the date of first documented activity in relation to the assessment of the project.				

Source: ANAO analysis of Infrastructure records.

**4.5** For the 12 projects approved before the program was closed in June 2011 to new projects, the average elapsed time between a project being referred to the department for assessment and a funding decision being made by the Minister was nearly three months (82 days). This was timely in the context of an economic stimulus program, including in comparison to other economic stimulus grants programs examined by ANAO. Further in this respect, project



initiation, assessment and approval processes were completed more quickly as the program proceeded. In respect to those projects that have been approved for funding:

- the first four projects that were initiated for assessment were approved between 92 and 346 days after the project was first referred to the department (an average of 166 days or five and a half months); and
- five projects were approved for funding in June or July 2010, with these projects being approved between 15 and 70 days after the project was first referred to the department (an average of 43 days or six weeks).

**4.6** As of June 2011, there had been no projects approved for funding since July 2010, and only two further projects had been initiated for an assessment (in January 2011 and May 2011). As noted at paragraph 1.17, this reflects the fact that the majority of funding available for projects under the IEP stream had been committed either to approved projects or projects agreed 'in-principle' pending a full departmental assessment.<sup>185</sup>

**4.7** Having regard for the timeframes typically involved in establishing and delivering infrastructure projects of the type eligible to be funded through the IEP stream, it was important that promising projects be selected as quickly as possible so as to provide economic stimulus when it was most needed and within the two year program window agreed by government. As illustrated by Table 4.1, assessment work for most of the 12 approved projects was undertaken in a timely manner. However, Infrastructure experienced challenges in finalising assessments for five of the remaining seven projects.<sup>186</sup> In respect to these five projects:

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<sup>185</sup> See further at footnote 183 regarding 'in-principle' agreements.

<sup>186</sup> The two other instances related to:

- the Adelaide City Women's Football Club Clubrooms project, where the assessment was not completed after the department became aware that a similar application to the State Government to fund the remaining project costs had been successful (see paragraphs 3.123 to 3.125); and
- the final project initiated for IEP stream funding consideration (the Cloncurry Community Precinct project) which did not proceed past the initial assessment stage. In June 2011 the Infrastructure Minister sought the Prime Minister's agreement to a new administered item being established in his portfolio using \$2.4 million in unallocated funds from the IEP stream to enable the project to be funded.



- in two instances, a decision to not further consider IEP stream funding was made in February 2011, 13 and 19 months respectively after the project had been initiated for funding consideration;
- for another project, in May 2011 (nearly 13 months after the project had been initiated for IEP stream consideration) a decision was taken not to award funding, with the proponent being advised accordingly<sup>187</sup>; and
- in the remaining two instances, the assessment had yet to be completed as at 30 June 2011, 14 months after each project had been initiated for IEP stream funding consideration. As outlined at paragraph 1.18, in June 2011 the Minister was advised that these two projects may need to be removed from consideration under the IEP stream (given program funding was to end on 30 June 2012) and instead progressed as separate administered items (using the available IEP stream funds). As noted at footnote 49, funding commitments in relation to these two projects were announced in August and July 2010 respectively. In September 2011, Infrastructure advised ANAO that these matters were still under consideration by government in relation to both projects, with a decision yet to be made.

## Initial appraisal of project concepts

**4.8** Infrastructure completed initial assessments and provided a brief to the Minister advising him of the outcome in respect to 16 of the 19 projects referred to it for possible IEP stream funding. The initial appraisal stage was commenced but not completed in respect to the MA Noble Stand

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<sup>187</sup> In July 2011, Infrastructure commented to ANAO that: 'The department had been working with the proponent, including undertaking an IVA and seeking risk mitigation measures, during this time. When the proponent couldn't meet the department's requirements, the department advised the Minister accordingly.'

Redevelopment project.<sup>188</sup> In the remaining two instances, the project proceeded directly to a full assessment, as follows:

- departmental records state that the MCA Redevelopment and Creation of a National Centre for Creative Learning project was referred to it on 16 March but that on 29 March 2010 (prior to the department providing the Minister with advice on the outcome of the initial assessment), the Minister's Office asked that the department proceed to a full assessment of the project<sup>189</sup>; and
- in January 2011, the department commenced assessment of potential IEP stream funding to complete the fitout of new clubrooms for the Adelaide City Women's Football Club. The clubrooms had already been constructed, but funding for the project had been exhausted without the fitout having been completed. As discussed at paragraph 3.125, on 14 February 2011, the department informed the project proponent that:

It has come to the department's attention that funding for this proposal has recently been secured through the 2010–11 Community Recreation and Sport Facilities Program which is funded by the South Australian Government's Office for Recreation and Sport. Therefore, the department will not be progressing with the assessment of this proposal.<sup>190</sup>

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<sup>188</sup> In August 2009, the Minister had agreed to the department's recommendation that he approve that project for an initial appraisal and possible development as an IEP stream project. In April 2010, the department advised the Minister that this project was not being further considered as the project was not ready to start. In February 2011, the Minister agreed to a recommendation from Infrastructure that the project not be progressed. The proponent was not formally advised of the decision to withdraw the project from IEP funding consideration. In June 2011, Infrastructure advised ANAO that this was because: 'The department was in discussions with the NSW Government in relation to the proposal. When it was confirmed by the NSW Government that they were not going to be able to source the relevant NSW funds for the project (possibly—as noted in the [ANAO report]—making it 'not ready to start') this was effectively the end of the discussions, and the department advised the Minister of the status of the proposal. At that point, formal notification from the department to the NSW [sic] was neither relevant or appropriate, as it was NSW which had effectively decided not to proceed with the proposal.'

<sup>189</sup> Specifically, on 29 March 2010 the department emailed the Minister's Office as follows: 'Confirming our discussion of today, you have asked that the department contact the Museum of Contemporary Art to see if the project can fit within the IEP guidelines. As discussed, we have not taken this approach with other projects as the Minister's Office had requested no contact be made with proponents until the Minister had confirmed he wished to consider the project following our initial assessment. However, there is nothing in the program guidelines that prevent this from occurring—it is just the practice that has been used to date under IEP. The program guidelines do allow the department "to work with proponents where necessary to refine promising proposals".'

<sup>190</sup> The department advised the Minister of this outcome in February 2011.

## Limitations of the initial appraisals undertaken

**4.9** For some grant programs, the capacity to maximise the extent to which high quality proposals are submitted for consideration, and the cost-effectiveness of the program for both the administering agency and prospective funding recipients, may be enhanced by adopting a two-stage proposal and assessment approach. One such approach involves a form of pre-assessment or initial assessment being used to assist:

- prospective funding recipients in determining whether there is likely to be any merit in them investing in the preparation of a full proposal; and
- the administering agency in determining whether undertaking a full assessment of a proposal would be an efficient and effective use of resources.

**4.10** Against this background, the Jobs Fund guidelines stated 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.

**4.11** However, the IEP stream initial assessment stage was not used to focus the full assessment process on only those proposals that appeared likely to meet the Jobs Fund gateway criteria and the program's objectives to a high standard. This was reflected in the fact that in each of the first 15 instances where an initial appraisal was completed, the department recommended that the project proceed to a full assessment. This was despite the fact that, as outlined in Table 4.2, in each case the department had either:

- been unable to reach a preliminary view about whether the Jobs Fund gateway criteria had been satisfied. Similarly, for some projects the department was unable to assess whether IEP stream specific requirements set out in the program guidelines had been satisfied (for example, that the majority of funds would be used for construction). This situation reflected the practice generally adopted for the initial appraisal stage following referral of a project to the department by the Minister's Office, which was for the department to have no contact with proponents, so as to not raise expectations that IEP stream funding was being actively considered; and/or
- concluded that the project did not meet one or more of the gateway criteria.

**Table 4.2****Initial assessments completed against the gateway criteria for projects that proceeded to a full assessment**

Project	Departmental initial assessment		
	Gateway 1	Gateway 2	Gateway 3
Queensland Symphony Orchestra Co-Location	Not met but may wish to consider construction industry vulnerability more generally and workers from affected areas may travel to work on the project.	Met	Met
Rugby League Central	Not met	Met	Not met
Fitzgerald River National Park Road Upgrade and Walk Trail	Not in an identified priority area but BHP Billiton's nickel mine in Ravensthorpe has closed.	Met	Not met
Three Capes Walk-Multiday Walking Track with Accommodation	Not met	Met	Not met
The Wayside Chapel Redevelopment	Not met but project may employ people from areas affected by the economic downturn.	Met	Met
Mt Panorama Phase 2 Redevelopment	Not met	Met	Met
Gladstone Airport Terminal Upgrade	Not in an identified priority area but there have been major job losses at the Rio Tinto Yarwun 2 Project.	Met	Met
Wilcannia Business Hub	Not in an identified priority area, but Wilcannia is a national priority under the Remote Service Delivery Program and has high unemployment.	Unknown - insufficient detail to assess.	Unknown - insufficient detail to assess.
Cairns Cultural Precinct	Met – in a Priority Employment Area.	Not met	Not met
Wandong Memorial Stadium	Located in a priority area as it was affected by the Black Saturday bushfires.	Unsure – project appears to be in the concept design phase only.	Unsure – insufficient information provided to date.

Project	Departmental initial assessment		
	Gateway 1	Gateway 2	Gateway 3
Community Camping and Day Visitor Sites Upgrade	Not in an identified priority area and unemployment is lower than the State and national averages.	Met	Met
Domain Tennis Centre Upgrade	Not met	Met	Met
Essendon Sporting and Community Hub	Not met	Not met	Not met
Mackay Multi-Use Stadium	Unable to determine, but does not appear to meet.	Met	Met
Sapper Jacob Moerland Memorial Skate Park	Not in an identified priority area but unemployment rate has increased.	Met	Met

Source: ANAO analysis of Infrastructure records.

**4.12** In no instance where the department had been unable to assess one or more of the gateway criteria as having been demonstrably met by a proposal did the department recommend to the Minister that the proposal not proceed to further consideration for IEP funding. In that respect, the department appears to have viewed its role in undertaking an initial assessment as being to identify means by which the proposal might be able to be considered satisfactory under the program guidelines. This compounded the approach taken to initiating projects for IEP stream funding consideration which, as outlined in Chapter 3 of this report, did not seek to transparently focus consideration on proposals that could be expected to best promote the achievement of the Jobs Fund program outcomes, having regard to the published program criteria.

**4.13** The sixteenth and last project that was the subject of an initial assessment was the final project initiated for funding consideration (the Cloncurry Community Precinct project initiated in May 2011). For that project, the department changed the format used in advising the Minister of the outcomes of its initial assessment. Rather than explicitly stating the department's preliminary view as to whether or not the proposal met various criteria (including the gateway criteria) as had been its previous practice (see Table 4.2), in the case of the Cloncurry Community Precinct project the department made what it described as a 'comment' against each criterion. Of particular note was that the comment offered in respect to the first gateway

criterion requiring that projects be located in areas experiencing high unemployment, a significant rise in unemployment or vulnerability was that:

Whilst the unemployment rate for Cloncurry is lower than the Qld average of 5.5%, it has seen a significant rise in unemployment (2.8% to 4.2%) between September 2009 and September 2010.<sup>191</sup>

**4.14** However, the covering brief to the Minister provided greater clarity about the department's assessment of this criterion, wherein it was stated that:

It is arguable whether investment in a region with unemployment below the Queensland average, and which has not suffered the same significant impacts of natural disasters, such as a cyclone, as other regions would have a significant impact in creating or supporting additional jobs in construction, relative to other potential projects.

**4.15** Similarly, the comments offered in the initial assessment against the second and third gateway criteria did not identify any departmental concerns. However, the May 2011 covering brief stated that:

\$2.4m remains unallocated in IEP following the cancellation of the proposed Wilcannia project and there appears to be sufficient time for Stage 1 of the [Cloncurry] Project to complete before IEP ends on 30 June 2012. However, funding the Project at this stage after the Global Financial Crisis<sup>192</sup> may subject the Government to criticism in relation to the objectives of IEP of generating jobs in regions affected by the economic downturn or natural disaster.

**4.16** Nevertheless, Infrastructure advised the Minister that, the project 'just satisfies the IEP criteria' and offered the Minister two options:

- encourage the Cloncurry Shire Council to pursue funding under the Regional Development Australia Fund; or
- agree to the department seeking further information for an Independent Viability Assessment (IVA) and full assessment of the project under the IEP stream.<sup>193</sup>

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<sup>191</sup> The departmental advice was provided in May 2011, eight months after the most recent unemployment data referenced in the brief to the Minister.

<sup>192</sup> In February 2011, Infrastructure had advised its Minister that 'the effects of the economic downturn have diminished'.

<sup>193</sup> A decision in respect to the advice provided in that brief was not recorded.

**4.17** As outlined at paragraph 3.75, following discussions, a further briefing was provided to the Minister in June 2011 in which he was advised that a new administered item should be established with the \$2.4 million in unallocated funds from the IEP stream, to be used for the Cloncurry Community Precinct project. The Minister agreed with this recommendation.

## **Initial appraisal results**

**4.18** As noted, of the 16 projects for which an initial assessment was completed, on 15 occasions the department's recommendation to the Minister was that the project proceed to a full assessment. In all but one instance, the Minister agreed to the department's recommendation.

**4.19** The exception related to the proposal from Bathurst Regional Council for funding of the Mount Panorama Phase 2 Redevelopment project. An application in respect to this project had been submitted to DEEWR in response to the first public call for applications to the Jobs Fund. As discussed at paragraphs 3.97 to 3.106, that application was included in the infrastructure proposals seeking more than \$2 million that DEEWR had referred to Infrastructure but which were later returned to DEEWR once it was decided that they would not be accepted for consideration under the IEP stream.

**4.20** As discussed (see paragraphs 3.99 to 3.101), a further proposal seeking IEP stream funding for this project had been received on 18 January 2010 and referred to the department for an initial appraisal on 25 January 2010. On 5 February 2010, the department briefed the Minister on its initial appraisal of the proposal and recommended that the Minister agree to it:

- seeking further information from the Bathurst Regional Council and commission an IVA; and
- then providing the Minister with further advice on the proposal for possible development under the IEP stream.

**4.21** Departmental records state that it did not receive a formal decision from the Minister prior to the caretaker period for the 2010 General Election commencing, but that the department understood that the Minister did not wish to proceed with the project. Accordingly, in response to 6 July 2010 correspondence from Council concerning the outcome of its application for IEP stream funding, the department advised Council that, if it wished to continue

to seek funding for the proposal, it would need to take the matter up with the incoming Government.<sup>194</sup>

**4.22** As also discussed, the only instance in which, on the basis of the department's initial assessment, the Minister decided not to proceed to a full assessment related to the Cloncurry Community Precinct project, the circumstances in respect to which are examined at paragraphs 4.13 to 4.17.

## Full assessment methodology and outcomes

**4.23** As noted, the grants administration framework requires departments to provide advice to Ministers on the merits of each proposed grant relative to the guidelines for the relevant program.<sup>195</sup> Guidance to agencies from the Department of Finance and Deregulation (Finance) is that, in undertaking the statutory function under FMA Regulation 9 of approving proposals to spend public money, an important consideration is whether the decision-maker has marshalled sufficient information to make a defensible decision.<sup>196</sup>

**4.24** Regulation 9 establishes a single test, comprising a number of elements, which must be applied by an approver.<sup>197</sup> Under FMA Regulation 12, in addition to recording the terms of an approval<sup>198</sup>, the written record of the approval of a grant must address each element of the Regulation 9 test, being:

- the reasonable inquiries that were undertaken to inform the decision; and

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<sup>194</sup> Notwithstanding this advice, it was not until February 2011 that Infrastructure obtained formal approval from the Minister to not consider the project further under the IEP stream. The department's advice to the Minister outlined that the project had not been unsuccessful as a result of the department's assessment but that: 'As there has been no return advice from [the Minister, in respect to the initial assessment] and given the lack of available IEP funds, the Department recommends against progressing further with this project'.

<sup>195</sup> See paragraphs 4.1 and 4.2.

<sup>196</sup> Department of Finance and Deregulation, Finance Circular 2009/05, *Commitments to spend public money (FMA Regulations 7 to 13)*, 29 June 2009, pp. 9–12 and Finance Circular 2011/01, *Commitments to spend public money (FMA Regulations 7 to 12)*, 31 March 2011, pp. 20–21 and 34–36.

<sup>197</sup> Commonwealth Grant Guidelines, op. cit., p. 7 and Finance Circular 2011/01, op. cit., 31 March 2011, p. 20.

<sup>198</sup> The terms of an approval relate to factual matters including who the approved recipient is, how much has been approved and the purpose for which the funding has been approved.



- why the spending proposal was considered to be an efficient, effective, ethical and (from March 2011) economical use of Commonwealth resources; and
- how the conclusion was reached that the grant was not inconsistent with the policies of the Commonwealth.<sup>199</sup>

**4.25** In addressing their obligations under Regulation 12, where Ministers or other decision-makers agree with the agency funding recommendation, they are able to point to the agency assessment and advice as representing the reasonable inquiries they have made as required by Regulation 9, as long as:

- they are satisfied that the assessment was conducted with rigour and in accordance with the program guidelines; and
- the inquiries that were undertaken by the agency, and the reasons why the agency has concluded that the spending proposal represents a proper use of public money based on those inquiries, are recorded in the advice.

## **IEP stream assessment methodology**

**4.26** As noted in ANAO's Better Practice Guide on the administration of grants, 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>200</sup>

**4.27** It is also important for careful consideration to be given to the method and scale that will be applied in rating and (where relevant) ranking individual

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<sup>199</sup> The written record of the basis for the approval may be made by the approver or, where the departmental advice recommends that funding be approved and has outlined the basis for concluding that the proposed grant satisfies the requirements of FMA Regulation 9, the approver may, if he or she agrees with the reasons outlined in the departmental advice, rely upon that document as the written record of why the proposal was considered to satisfy the requirements of Regulation 9.

<sup>200</sup> ANAO Better Practice Guide, op. cit., p. 71.

applications.<sup>201</sup> In that respect, the process should provide for the consistent application of the selection process outlined in the published guidelines.

**4.28** 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. For example, in its administration of the Local Jobs and Get Communities Working streams of the Jobs Fund, DEEWR assessed the extent to which each gateway criterion had been met by each proposal, using a five point rating scale.

**4.29** As part of the discussions that occurred between departments in relation to establishing each department's assessment approach, Infrastructure was provided with documentation relating to the scoring approach developed by DEEWR. Departmental documentation indicates the Infrastructure originally intended to adopt a similar scoring system for the assessment of applications under the competitive bike paths element of the Local Jobs stream, but ultimately departed from that approach.<sup>202</sup> Instead, for that component of the Jobs Fund, Infrastructure applied an approach in which applications were assessed as either meeting the threshold criteria (and therefore being considered capable of being funded should the Infrastructure Minister so choose), or as not meeting one or more of the threshold criteria. Infrastructure did not make recommendations to the Minister about which applications should or should not be approved for funding under the bike paths component. This approach was taken notwithstanding that, as noted, since December 2007 agencies have been required to provide advice to Ministers on the merits of each proposed grant relative to the guidelines for the relevant program.<sup>203</sup>

**4.30** For the IEP stream, Infrastructure did make funding recommendations to the Infrastructure Minister in relation to proposals referred to it for assessment. However, the department did not provide advice to the Minister in relation to the overall quality of each proposal in contributing to the

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<sup>201</sup> *ibid.*, p. 77.

<sup>202</sup> The bike paths component is now administered by the Department of Regional Australia, Regional Development and Local Government created under the Administrative Arrangements Order of 14 September 2010.

<sup>203</sup> See paragraph 4.1.

program objectives, in terms of the relevant project's potential community benefits and expected economic stimulus effect for the amount of funding being sought, so to inform the Minister's funding decision. Rather, Infrastructure limited itself to assessing whether each of the threshold criteria could be viewed as having been satisfied by the proposal to a minimum standard.<sup>204</sup>

## Assessment results

**4.31** As at 30 June 2011, there were 13 projects for which a full IEP stream assessment had been completed. In the first 12 such instances, Infrastructure recommended to its Minister that funding be approved. For each of these projects, the briefing material provided to the Minister to support the funding recommendation:

- provided summary information on the project;
- advised that a viability assessment had been undertaken (either by an external consultant or departmental officials) and included an attachment that summarised any identified risks to project delivery and the proposed treatments and advised that the risks were considered acceptable;
- outlined the results of the department's assessment of the project against the Jobs Fund guidelines, including:
  - advising that the IEP stream specific requirement that the majority of funds would be spent on construction had been met;
  - that the project addressed at least one of the four target areas set out in the Jobs Fund guidelines; and
  - commenting upon the assessment of the proposal in terms of the three gateway criteria;
- concluded that the department considered that the provision of funding represented efficient and effective use of public money; and

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<sup>204</sup> Infrastructure adopted a similar approach to assessing applications under the bike paths component, which will be examined further in the current audit of that component of the Local Jobs stream of the Jobs Fund.

- advised that the Minister, in approving funding, would be exercising the FMA Regulation 9 statutory function, and that approval of the departmental minute would satisfy the requirements of FMA Regulation 12. The department further advised that, should the Minister take account of matters not outlined in the departmental briefing, or set conditions other than those recommended, he should make a written record of these matters or conditions.<sup>205</sup>

**4.32** For each of the 12 projects, the Minister agreed with the department's recommendation and approved IEP stream funding. There were no instances where the Minister recorded that matters additional to those addressed in the departmental briefing had been considered in reaching a funding decision, and there were no instances where funding conditions additional to those recommended by the department were set by the Minister.

**4.33** The only instance where a completed assessment has not resulted in the department recommending the approval of funding related to the last project where a full assessment had been completed. In that instance, the department recommended in May 2011 against the approval of funding, in part due to the project not being likely to be completed by the current program end-date of 30 June 2012. The Minister agreed with the department's recommendation.

## Risk assessment

**4.34** The published Jobs Fund guidelines stated that projects would be subject to due diligence and risk assessment by the administering departments as appropriate. The guidelines further outlined that, where there were considered to be risks with the viability of a project requiring further consideration, an IVA would be undertaken by a qualified external consultant

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<sup>205</sup> As outlined in Chapter 3 of this report, an important source of projects considered for possible IEP stream funding was unsuccessful applications to another economic stimulus programs or the general call for applications to the Jobs Fund. However, in none of those instances did the assessment advice provided to the Infrastructure Minister :

- identify that the project had been the subject of an earlier application to a related economic stimulus program;
- inform the Minister of which aspects of that application had contributed to it not being successful in its request for funding through a competitive, applications-based process; or
- how those aspects that had led to the application not being successful when competing against other applications had been addressed, or why those aspects were considered not to be relevant to the consideration of the merits of the project for possible IEP stream funding.

engaged by the relevant department, with the IVA findings to be considered in the project assessment.

**4.35** Infrastructure's documented procedures for the IEP stream provided for IVAs to be undertaken during the full assessment stage for a proposal. In August 2010, the department amended its internal procedures so that, on a case by case basis, viability assessments could be undertaken by departmental staff (referred to as a Departmental Viability Assessment—DVA), rather than commissioning an IVA. This change occurred in the context of assessing for possible IEP stream funding two unsuccessful applications to the second round of the RLCIP Strategic Projects component.<sup>206</sup> Departmental records indicate that this approach was adopted because:

The extent of the information available about both projects, the lower levels of funding (in comparison to some IEP projects) being sought and the extent of community benefit of the projects gave cause to consider whether it was more appropriate, efficient and effective to use skilled staff in the IEP Team to conduct a Departmental Viability Assessment (DVA).

**4.36** Where IVAs were undertaken, reports were commissioned from separate firms, examining delivery viability and construction feasibility respectively. ANAO analysis was that the construction feasibility reports generally provided a more critical analysis of project risks than was included in the delivery viability reports.

**4.37** The department required the IVA providers to provide a draft report within 48 hours of the receipt of project information. This presented risks in terms of the ability of the IVA providers to provide comprehensive and robust advice on project risks and proposals for their management. For example, in a number of instances the report from the IVA provider stated that assumptions had been made about projects because there was insufficient time available to undertake the inquiries that would be necessary to fully consider relevant issues.

**4.38** The results of the IVA or DVA were tabulated by the department in five categories namely: corporate and personnel matters relating to the proponent; the financial position of the proponent; the proponent's ability to manage grant funds; the proponent's ability to deliver the project and intended results; and

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<sup>206</sup> Namely, Hobart City Council's Domain Tennis Centre Upgrade (Stage 3) project and Kangaroo Island Council's Community Camping and Day Visitor Sites Upgrade project.

the proponent's ability to sustain the project and intended results. The documented procedures required that each project be allocated a risk rating of *Very Low, Low, Moderate, High* or *Severe* against each of the five risk categories, together with an overall conclusion (but not an overall risk rating) from the department as to whether the risk assessment supported the approval of funding for the project.

**4.39** Based on this work, as noted at paragraph 4.31, the departmental briefs provided to the Minister identified whether there were any risks to the successful implementation of the project and, if so, the risk management strategies the department proposed to employ. In each instance where a full IEP stream assessment has been completed and funding was recommended, the department concluded that all identified risks could be managed. Where risks were identified, the Minister was advised that they were acceptable and could be reduced to lower levels if the associated proposed treatments identified by the department were imposed.

## **Management of identified risks**

**4.40** The department sought to manage most identified risks through clauses to be included in the funding agreement executed with the relevant proponent. For example, the funding proposal submitted by Gladstone Regional Council for the Gladstone Airport Terminal Upgrade project sought IEP stream funding of \$5.5 million to fully fund the relevant works. The construction feasibility IVA report for that project had noted that the architectural documents provided by Council were at the design development stage and that:

- the cost estimates, prepared by a firm that the IVA provider advised the department were specialists in airport and airport terminal projects, were in sufficient detail to provide a 'reasonable level' of confidence in the costing; and
- industry reference materials indicated that the budget proposed for a project of this size and type was 'realistic'.

**4.41** Nevertheless, the IVA provider noted that the design documentation and specifications would need to progress for tendering and for construction; that no structural engineering or services engineering design had been provided; and that the budget was qualified as being a 'preliminary draft for discussion.' The pre-treatment risk to project delivery arising from these issues

was assessed as Medium. The IVA provider considered that project delivery risk would reduce to Low if the department confirmed the project schedule and obtained a firm project budget. Following the Minister's approval of funding for this project on 16 February 2010, the department obtained information on project timelines during the development of the funding agreement. Also as part of this process, the department was advised by Council that it had been an error to not identify the budget of \$5.5 million was 'final', but that 'because of the short timeline, we overlooked removing this detail from the budget heading'.

**4.42** However, in its August 2010 first progress report, Gladstone Regional Council informed the department that the estimated total project cost had increased from \$5.5 million to \$7.035 million (some 28 per cent) since funding had been approved six months earlier (notwithstanding that the project budget of \$5.5 million included in the funding agreement had included a provision of \$1.3 million for design and construction contingencies). Council advised the department of the following reasons for this increase:

The funding was first thought to be approximately \$5.5 million. Unfortunately, due to the quick nature of getting documents signed in preparation for the Minister's visit<sup>207</sup> we slightly underestimated the cost. The other extra cost was due to finding rock<sup>208</sup> and then soft ground during excavation and subsequent soil testing. This rock required footing redesign and combined with then discovering soft soil we required a lot more design work to be done, including the use of architects, engineers and consultants.

**4.43** Ultimately, the funding agreement for this project was varied to require the local government authority proponent to meet the extra costs (originally, the project was to have been fully funded by the Australian Government).

**4.44** However, the department's approach of seeking to manage most risks identified in relation to projects funded under the IEP stream through the funding agreement subsequently executed with the proponent was unable to

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<sup>207</sup> Information on this project was first provided to Infrastructure by the Minister's Office on 29 January 2010, followed by a letter dated 1 February 2010 to the Minister from the then Member for Flynn seeking 'urgent support/funding' for the project (see paragraphs 3.48 to 3.51). Funding for this project was announced by the Minister on 17 February 2010, during a visit to Gladstone.

<sup>208</sup> In this respect, Council further advised the department that: 'the discovery of rock required changes in design, both structural and hydraulic. The normal line of excavation had to be changed to be nearer to existing footings and services, which subsequently increased costs (when working close to existing services the work is slower and more costly). To minimise delays we had extra consultants working on the project which also added to the cost.'



be fully implemented in respect to three projects that have involved payments to a state government entity made through a National Partnership Agreement. This was because Implementation Plans for projects being funded through National Partnership Agreements are required to avoid the use of financial or other input controls of the type typically included in IEP stream funding agreements. In this respect, in September 2011, Treasury advised ANAO that:

The Intergovernmental Agreement on Federal Financial Relations (IGA) takes a broader approach to risk management than the avoidance of financial or other input controls, and focuses on the achievement of outcomes and outputs through clearly defined and articulated objectives, outcomes and outputs, clearly delineated, accepted and understood roles and responsibilities, robust estimates and good payment design (that is, linking payments to the achievement of outcomes or outputs), and appropriate levels of performance monitoring and reporting. The relationship between the IGA and the *Financial Management and Accountability Act 1997* and Regulations was discussed with the ANAO and the Department of Finance and Deregulation (Finance) in the context of the 2010 Heads of Treasuries (HoTs) review on agreements under the IGA, which was agreed by the Council of Australian Governments in February 2011. As a result of those discussions, the HoTs review noted that “there is no need for agencies to consider introducing additional layers of prescription or additional reporting requirements” provided that agreements are designed in accordance with the principles of the IGA.

**4.45** The Queensland Symphony Orchestra Co-Location project related to the development of a space to be leased to the orchestra within a new Brisbane headquarters building being constructed by the Australian Broadcasting Corporation (ABC). As the IEP stream funding is being paid in the first instance to the Queensland state government<sup>209</sup>, it is being administered through an Implementation Plan made between the Commonwealth and Queensland governments under the National Partnership Agreement to Support Local Government and Regional Development.<sup>210</sup>

**4.46** The construction feasibility IVA report had observed that the \$14 million cost of the co-location aspect was an apportionment of the total cost of the construction of the ABC’s new building, but that the basis on which this apportionment was made (and therefore the basis for the Australian

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<sup>209</sup> The funding arrangements for this project are discussed further at paragraphs 5.14 to 5.18.

<sup>210</sup> See further discussion of this issue at paragraphs 5.11 to 5.21.



Government to contribute \$9 million of the \$14 million cost) had not been explained. The IVA provider proposed that an independent cost review of the project be undertaken so as to ensure that the \$14 million represented a 'fair apportionment' of the overall cost of the building redevelopment.

**4.47** An independent cost review was not undertaken. Instead, the departmental advice to the Minister proposed that the risk be treated by requiring the proponent to provide a detailed breakdown of the project costs to ensure that the \$14 million was feasible and reflected the co-location costs. However, Infrastructure did not obtain a detailed breakdown of project costs from the proponent. Instead, in its June 2010 advice to the Minister recommending that he approve the Implementation Plan for this project, Infrastructure stated that three actions had been undertaken in the Implementation Plan to address this risk. Specifically, the department proposed to rely on milestones in the Implementation Plan relating to the project timeline and confirmation of the receipt of partnership funding, and a clause requiring the state to work with the Orchestra to ensure satisfactory value for money facility outcomes in circumstances where the costs exceed the estimate.

**4.48** None of these milestones required that the funding recipient provide evidence of the basis used to quantify the budget for co-location, noting that the issue identified by the IVA provider had been the lack of assurance that the \$14 million represented a 'fair apportionment' of the overall cost of the building redevelopment.

## Value for money assessment

**4.49** As noted at paragraphs 2.34 to 2.36, the published Jobs Fund program guidelines 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 an assessment of value for money, involving the envisaged outcomes of the project being analysed in light of the amount of funding being sought. The published guidelines further outlined that this analysis 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.

**4.50** As also outlined at paragraphs 2.34 to 2.36, whilst the published guidelines that applied to the IEP stream did not establish value for money as a key criterion to be applied in selecting funding recipients, the lead department for the Jobs Fund (DEEWR) has advised ANAO that value for money considerations were expected to underpin the entire assessment process.

**4.51** For competitive application-based grant programs, value for money analysis is typically undertaken by comparing the relative merits of eligible and compliant proposals. For non-competitive programs (such as the IEP stream of the Jobs Fund), one approach is to assess value for money by comparing candidate projects against relevant benchmarks.<sup>211</sup> However, neither the published program guidelines nor Infrastructure's documented internal procedures established any benchmarks against which the value for money offered by projects being considered for possible IEP stream funding could be assessed.<sup>212</sup> Another approach that was available for the IEP stream was to compare the value for money offered by those projects that had been initiated to that offered by applications to the competitive elements or the Jobs Fund, and/or highly rated applications to the Strategic Projects component of the RLCIP.

## **Use of independent viability assessments**

**4.52** A construction feasibility IVA was commissioned by Infrastructure for seven of the 12 projects recommended and approved for IEP stream funding. The guidelines issued by the department to the two firms that conducted each of these IVAs required that the assessment address project job outcomes, as follows:

IVA Assessors will assess whether the project concept provides the job creation data and projections are consistent with industry standards for construction. It should be noted that the Jobs Fund Guidelines do not require a specific number of jobs per project to be supported or created.

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<sup>211</sup> Other programs audited by ANAO in recent years that have involved projects being assessed for funding approval in isolation to one another, rather than eligible applications competing for a quantum of available funding, are the Better Regions Program (Audit Report No.24 2010–11) and the former Regional Partnerships Program (Audit Report No.14 2006–07).

<sup>212</sup> By way of comparison, under the former Regional Partnerships program also administered by Infrastructure and which, as noted, also involved candidate projects being assessed and selected for funding through a non-competitive process, various benchmarks for assessing the value for money of proposed project outcomes were established. Where job creation was a focus, the benchmark was that each ongoing full-time or equivalent job would be supported by less than \$25 000 in grant funds.

No risks, controls or risk treatments will apply to this section.

**4.53** The guidance provided to the assessors also outlined a number of points the assessor may wish to consider. It further required that the IVA report specifically comment on whether the:

- project's location is particularly impacted by the current economic and labour market conditions;
- claimed number of jobs, traineeships and/or work experience places appears to be reasonable;
- proforma outlines a strategy to achieve the level of job creation claimed;
- anticipated resources are sufficient for the proposed construction; and
- Council of Australian Governments' (COAG) requirement of 10% of training positions can be achieved and is appropriate?

**4.54** However, the guidance provided by the department did not require that the assessor form a view as to whether the employment outcomes (or other economic and/or community benefits) claimed by the project proponent represented value for money in the context of the amount of grant funding being sought. Accordingly, none of the construction feasibility IVA reports commented on this issue, although three of the reports concluded that the first gateway criterion had not, in the assessor's view, been met by the relevant project proposal.

**4.55** The briefings provided to the Minister by Infrastructure referenced an IVA having been undertaken, but in some cases did not accurately reflect the findings set out in the IVA report. For example, the department's briefing recommending that the Minister approve funding for the MCA Redevelopment and Creation of a National Centre for Creative Learning project advised that the project would result in 219 construction jobs. This advice had been drawn directly from material provided to the department by the proponent. However, the briefing provided to the Minister did not reflect that the construction feasibility IVA report obtained to inform the departmental assessment had concluded that:

- the 219 construction jobs figure actually related to the peak manpower requirement for construction expected to occur in the 11<sup>th</sup> month of the planned 18 month construction period; and

- 135 full time equivalent jobs would arise during the 18 month planned period of construction.

## Different assessment approaches

**4.56** By way of comparison, although not provided for in the scoring system adopted, DEEWR explicitly considered the value for money offered by proposals in formulating funding recommendations under the first round of the Local Jobs and Get Communities Working streams of the Jobs Fund. In some instances, projects that were not ranked as highly as others based on their scored assessments against the gateway criteria were nevertheless recommended for funding where the department considered that the proposal offered good value for money. For example, one project in the Ballarat—Bendigo Priority Employment Area seeking \$102 179 in grant funding achieved only moderate scores against each of the gateway criteria<sup>213</sup>, but was recommended for funding on the basis that it appeared to offer good value for money in terms of the claim of creating five jobs and five traineeships (on average, a cost of \$10 218 per job created or retained).

**4.57** Similarly, there were instances where projects scored highly against the gateway criteria were not recommended for funding approval because DEEWR did not consider that the project represented value for money. For example, one project in the Central and North Western Sydney Priority Employment Area had scored relatively highly against each of the gateway criteria<sup>214</sup>, but was not recommended for funding on the basis that it was considered to offer low value for money ‘in terms of number of jobs created for the large amount of funding sought’. That application had sought some \$2 million and had indicated it would create 10 long term jobs and two traineeships (on average, a cost of \$166 667 per position created or retained).

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<sup>213</sup> Following an adjudication process that resulted in its scores against gateway criteria 2 and 3 being upgraded from two (weak) to three (adequate), the project was awarded a score of three out of five against each of the three gateway criteria (with three being the minimum score required to be considered to have met a criterion to an adequate level). The overall score of nine out of 15 placed the project in the bottom 36 per cent of the 142 projects assessed by DEEWR under the first round of the Local Jobs stream as having achieved at least the minimum of score of three against each of the gateway criteria.

<sup>214</sup> The moderated assessment process had resulted in the project being awarded a score of four out five for each of the three gateway criteria. The total score of 12 out of 15 ranked the project in the top 10 per cent of the 377 projects allocated to the general component Local Jobs stream by DEEWR in round one of the Jobs Fund.

**4.58** The second funding rounds of the Local Jobs and Get Communities Working streams were conducted in early 2010, at the same time as many of the IEP stream projects were being assessed. In that case, the departmental delegate within DEEWR who made the decisions about which applications would be approved required that he be provided with data for each recommended project that outlined the cost per job created and/or retained, as well as the cost 'per unit' (being the total number of jobs created and retained together with the total number of work experience positions and traineeships created and/or retained). Most projects which offered a per-unit cost of more than \$25 000 were considered by the delegate to not offer value for money. The average employment-related unit cost for projects funded by DEEWR through the first and second rounds of the Local Jobs and Get Communities Working streams was \$11 253 and \$12 376 respectively. In respect to the employment-related unit cost analysis, in June 2011 DEEWR commented to ANAO that:

While DEEWR used employment-based unit costs as one of the indicators of the value for money, it should not be used in isolation. A project's location, the level of targeted groups' disadvantage and immediate and long term community benefits were also important factors in the value for money considerations.

**4.59** In respect to the approach taken by DEEWR to considering value for money under the elements of the Jobs Fund that it administered, Infrastructure advised ANAO in June 2011 that:

For infrastructure projects, particularly larger or more complex ones, there is a greater level of capital than labour intensity. Bigger projects are likely to lend themselves to economies of the scale which, for example, will see greater levels of plant and machinery employed than labour, and greater expenditure on materials. The department considers that direct comparisons between the expenditure on particular projects and the number of jobs created for that project are invalid.

**4.60** Prior to this advice to ANAO, these considerations had not been documented by Infrastructure as being the rationale for why it did not attempt analysis similar to that undertaken by DEEWR in its assessment of proposals. In addition, Infrastructure did not document or apply any alternative approach to considering the value for money offered by those projects that were being assessed for possible IEP stream funding. Indeed, neither the documented internal procedures nor the individual project assessments provided by Infrastructure to its Minister made any reference to value for money

considerations, either in relation to the proposed employment stimulus or any other aspects of the relevant project's proposed outcomes.

## Assessments against the unemployment gateway criterion

**4.61** As one part of the Jobs and Training Compact, the Jobs Fund was intend to maximise job and training opportunities in local communities.<sup>215</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.

**4.62** The program guidelines emphasised that only projects that met each of the three gateway criteria would be approved for funding any of the Jobs Fund funding streams. However, the three administering departments did not attempt to agree upon any common principles or approaches to be applied in assessing whether the gateway criteria had been met by a proposal. In addition, in administering the IEP stream, Infrastructure did not, either on its own or in consultation with DEEWR, seek 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

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<sup>215</sup> <http://www.deewr.gov.au/Employment/Pages/JobsFund.aspx> accessed 24 March 2011.

- there was no documented approach to deciding how ‘vulnerability’ would be measured.

**4.63** There were also differences in the approach taken by Infrastructure to assessments against the common employment gateway criterion for the two elements of the integrated Jobs Fund that it administered. For the bike paths component of the Local Jobs stream, Infrastructure adopted a phased approach to assessing applications against the unemployment gateway criterion. Specifically, a project was considered to have satisfied the criterion if it:

- was located in one of the 20 Priority Employment Areas;
- was not located in a Priority Employment Area but 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) as being in an area experiencing high unemployment or a significant rise in unemployment or vulnerability; or
- was located in an area that could otherwise be considered to be vulnerable to high unemployment due to factors specific to that location.

**4.64** By way of contrast, for the IEP stream Infrastructure examined whether projects were located within one of the 20 Priority Employment Areas (only one of the 19 projects initiated for funding consideration was). However, the department made no reference to DEEWR’s Regional Matrix, either in its IEP procedures manual or in the actual assessment of proposals. This was despite this tool having been developed by the lead employment policy department to provide a comprehensive measure of an area’s employment vulnerability. In addition, as outlined further below, the department did not otherwise adopt a consistent approach to assessing whether projects considered as a candidate for IEP stream funding against the unemployment criterion.<sup>216</sup>

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<sup>216</sup> Infrastructure’s assessment guide for the bike paths component included sections outlining how projects were to be assessed against each of the gateway criteria (the adequacy of these procedures, and their application, will be examined in the separate performance audit underway of the quarantined bike paths component of the Local Jobs stream of the Jobs Fund). By way of comparison, the internal procedures manual for the IEP stream:

Footnote continued on the next page...



## Priority Employment Areas

**4.65** Under the Jobs Fund program guidelines, a project did not need to be located in a Priority Employment Area to be eligible for funding. However, the Priority Employment Areas had been identified as the regions with labour markets likely to experience labour market disadvantage and deterioration as a result of the global recession. As outlined at paragraph 2.56, the interim *Keep Australia Working* report released in July 2009 made a number of recommendations to enhance government action in these areas of greatest immediate need. These included, considering how to best focus the Jobs Fund on projects in Priority Employment Areas that produce local jobs for local people, training and apprenticeships and pathways to long-term employment.

**4.66** In that context, it is notable that under the IEP stream, for which applications were not sought, only one of 19 projects considered for funding (and none of the projects approved to 30 June 2011) was located in a Priority Employment Area. This was significantly less than the rate at which funding was directed to projects located in Priority Employment areas under the other streams of the Jobs Fund.<sup>217</sup> In this respect, DEEWR's *Jobs and Training Compact Monitoring Report* for the quarter ending June 2010<sup>218</sup> stated that:

Labour market performance has shown slight improvement on average for the priority employment areas in the June quarter (compared to the March quarter 2010). However, priority employment areas continue to report higher levels of disadvantage.<sup>219</sup>

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- included limited reference to the gateway criteria in the chapter relating to initial appraisal (the manual stated 'the Assessment Officer should undertake an initial appraisal of the project concept against the Gateway Criteria and the IEP Guidelines' and 'Assessment Officers will specifically comment on whether the project concept meets the Jobs Fund and IEP specific criteria requirements by determining whether the project meets the Gateway Criteria', but provided no guidance on how the initial consideration of the gateway criteria would be undertaken); but
  - made no reference to the gateway criteria in the chapter relating to the full assessment stage.

<sup>217</sup> For example, 73 per cent of the projects approved under the two rounds of the general components of the Local Jobs and Get Communities Working streams administered by DEEWR were located in a Priority Employment Area; under the bike paths component of the Local Jobs stream (also at that time administered by Infrastructure), 45 per cent of approved projects were located in a Priority Employment Area; and under the 2009–10 round of the heritage component of the Local Jobs stream administered by DSEWPaC, 34 per cent of approved projects were located in a Priority Employment Area.

<sup>218</sup> In March 2011, DEEWR advised ANAO that PM&C had decided that reporting on the Jobs and Training Compact should move to a six monthly basis from the earlier approach of quarterly reporting.

<sup>219</sup> *Jobs and Training Compact Monitoring Report June Quarter 2010*, Department of Education, Employment and Workplace Relations, December 2010, p. 5.



**4.67** Similarly, the report for the six months ending December 2010 stated that:

There has been an overall improvement in labour market performance for the priority employment areas in the six months to December 2010. However, priority employment areas generally continue to report higher levels of disadvantage than the Australian average.<sup>220</sup>

**4.68** The priority intended to be given to targeting Jobs Fund funding at projects in the Priority Employment Areas was not reflected in the selection of candidate projects initiated for IEP stream funding consideration or in Infrastructure's assessment of candidates for IEP stream funding. In particular:

- the only project located in a Priority Employment Area that was considered for IEP funding was the Cairns Cultural Precinct project.<sup>221</sup> However, it was first referred to the department in April 2010, more than twelve months after the Jobs Fund had been announced and, as of June 2011, had not been approved for funding<sup>222</sup>; and
- for the remaining projects, a variety of approaches were adopted which enabled the department to avoid reaching a view that this gateway criterion had not been met.

**4.69** In this latter respect, projects not located in a Priority Employment Area have been approved under each stream of the Jobs Fund.<sup>223</sup> This was consistent with the terms of the first gateway criterion which did not require projects to be located in a Priority Employment Area but, rather, required that they be located in areas experiencing high unemployment, a significant rise in unemployment or vulnerability. However, in a number of instances, Infrastructure's assessment concluded that a project being considered for IEP

<sup>220</sup> Jobs and Training Compact Monitoring Report December 2010, Department of Education, Employment and Workplace Relations, March 2011, p. 4.

<sup>221</sup> By way of comparison, departmental records of the assessment of applications allocated to the bike paths component of the Local Jobs stream state that the Infrastructure Minister's Office had asked that Infrastructure check that each Priority Employment Area had been allocated at least one bike path project (where there had been applications from that Area).

<sup>222</sup> As discussed at paragraphs 1.18, 3.23, 4.7, and 5.41, that project (if it proceeds) is not likely to involve any significant construction work until after 30 June 2012. This is well outside the original timeframe ending June 2011 for the delivery of economic stimulus through the Jobs Fund, and after the revised program completion date of 30 June 2012. As a consequence, the project is being considered for possible removal from the IEP stream, with the related funding potentially to be transferred to a separate administered item so that the project can be funded outside of the Jobs Fund.

<sup>223</sup> See footnote 217.

stream funding was not located in an area identified as experiencing high unemployment, a significant rise in unemployment or vulnerability. Nevertheless, this did not cause the department to conclude that the gateway criterion had not been met.

### **Considering construction industry vulnerability**

**4.70** For four projects, the approach taken to concluding that the unemployment gateway criterion had been met was to advise the Minister that he could consider ‘vulnerability in the construction industry more generally’. This was the case with:

- the MCA Redevelopment and Creation of a National Centre for Creative Learning project located in the Rocks area of Sydney;
- the Wayside Chapel Redevelopment project located in Potts Point in Sydney;
- the Queensland Symphony Orchestra Co-Location project located in inner Brisbane; and
- the Domain Tennis Centre Upgrade project located in Hobart.

**4.71** In respect to the Queensland Symphony Orchestra Co-Location project, each of the two IVA reports commissioned by the department had concluded that, whilst offering employment benefits, the project did not meet the first gateway criterion. However, this was not reflected in the advice provided to the Minister. In addition, the project delivery IVA report had reached a somewhat different conclusion to that contained in the department’s advice to the Minister. The departmental advice had suggested that the project may attract workers from the Ipswich-Logan Priority Employment Area, notwithstanding that the department had not sought to identify the extent of employment that may result from the project for that Priority Employment Area or the likelihood of this occurring. The IVA report had concluded that there was a possibility of a small flow of employment to residents in that Priority Employment Area.<sup>224</sup>

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<sup>224</sup> In this respect, the IVA report noted that: ‘While not in a priority area, the areas closest to the project are generally experiencing increased unemployment, and our research has confirmed that the four largest employing industries in the Brisbane area are retail trade, manufacturing, health care and construction.’

Footnote continued on the next page...

**4.72** Similarly, the department's assessment of the Wayside Chapel Redevelopment project against the unemployment gateway criterion differed to that completed by DEEWR in respect to the same project. The project is located in inner metropolitan Sydney which, unlike a number of areas in western Sydney, has not been identified as a Priority Employment Area. As discussed at paragraphs 3.109 to 3.119, this project had originally been assessed by DEEWR under the first round of the competitive Local Jobs stream of the Jobs Fund, with that department initially rating the application as 'weak' against the unemployment gateway criterion. The rating was later amended to 'adequate'<sup>225</sup>, with the assessment noting in respect to the area where jobs were expected to be created or retained that:

The Proponent states a wider area, but realistically it will be inner-Sydney.

**4.73** The project was unsuccessful in the first competitive round of the Local Jobs stream. It was subsequently initiated for IEP stream funding consideration, for an increased funding amount to that originally sought. In advising that the project met the first gateway criterion as part of its assessment for IEP stream funding, Infrastructure advised the Minister that:

While the project is not specifically located in an area identified as experiencing entrenched disadvantage or vulnerability, employment in the construction and associated sectors is likely to employ people from across Sydney, including Priority Employment Areas, such as Canterbury-Bankstown and South West Sydney, areas affected by the economic downturn and experiencing unemployment above the state average.

**4.74** The basis for the department's conclusion, in the context of other areas of Sydney having been specifically identified as Priority Employment Areas, was not documented.

**4.75** Notwithstanding that the same application (albeit with an increased funding bid) was being assessed against the same criterion, Infrastructure did not take any steps to discuss its different perspective regarding the likelihood

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The Ipswich-Logan area is located nearby, and it is a priority area, and it is possible that construction workers might commute the relatively short distance to work on the project (less than 1 hour commute in most cases).

While it is difficult to predict where the project will draw its workers from, the 44 long term jobs that are estimated to be created by this project will assist employment in the Brisbane area, with some possibility of a small number of jobs being created for the residents of a designated priority area.'

<sup>225</sup> As noted at paragraph 3.112, the rationale for this amendment was not documented.

of the project generating employment in other areas of Sydney with DEEWR. Nor did Infrastructure advise its Minister that an earlier assessment of the project by another department under the same set of guidelines had reached a different conclusion.

## **Analysis of unemployment rates and job losses**

**4.76** For six projects<sup>226</sup>, Infrastructure considered unemployment rates and/or trends for the project location, the relevant state and the national average in coming to a conclusion that the unemployment gateway criterion had been met. For example, in respect to the Three Capes Walk-Multiday Walking Track with Accommodation project, the department's assessment was that:

Whilst the project is not situated in an identified priority area, the global financial crisis has impacted on unemployment in the Tasman region with an increase of 1.6 per cent since June 2008 and now matches the national average of 5.3 per cent.

**4.77** As a measure of a location being able to be appropriately described as 'experiencing high unemployment, a significant rise in unemployment or vulnerability', this approach was unsophisticated as well as being inconsistent with that taken in other elements of the Jobs Fund. By way of comparison, for the bike paths component of the Local Jobs stream, Infrastructure's procedures manual required that the assessment against the unemployment gateway criterion consider, amongst other things, the regional matrix of unemployment vulnerability prepared by DEEWR.<sup>227</sup> In this respect, compared to Infrastructure's analysis, the DEEWR regional matrix identified both the state of Tasmania and the region in which the project was located as being 'Average' in terms of employment vulnerability. The only region of Tasmania identified as being 'Below Average' or 'Poor' under the DEEWR regional matrix was the Mersey-Lyell region (rated as 'Poor'), but no projects located in that region had been initiated for assessment under the IEP stream.

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<sup>226</sup> Namely: Rugby League Central; Three Capes Walk-Multiday Walking Track with Accommodation; Gladstone Airport Terminal Upgrade; Wandong Memorial Stadium; Mackay Multi-Use Stadium; and Sapper Jacob Moerland Memorial Skate Park.

<sup>227</sup> For that program, also administered at that time by Infrastructure, 57 per cent of approved projects were located either in a Priority Employment Area (45 per cent of approved projects) or were in locations assessed as vulnerable under the DEEWR regional matrix (12 per cent of approved projects).

**4.78** Against this background, the DEEWR regional matrix represented a more comprehensive analysis of the employment vulnerability of different regions. It is compiled having regard to a number of labour market indicators (including the unemployment rate, participation rate and employment growth) as well as data in a range of other areas including:

- industry structure (including the proportion of employment in the region in each industry and the level of any employment concentration by industry);
- occupation structure, including skill levels;
- demographics;
- the level of education attainment;
- household finances; and
- the proportion of persons receiving income support and or seeking employment.

**4.79** For two projects assessed under the IEP stream, neither the unemployment rate nor the trend in unemployment in the relevant location supported an assessment that the unemployment gateway criterion had been met. In these two instances, the department's assessment was that recent job losses in the area meant the unemployment gateway criterion had been satisfied. Specifically:

- in respect to the Kangaroo Island Community Camping and Day Visitor Sites Upgrade project, the department's assessment was that:  

the project is not located in an identified priority area. Although Kangaroo Island Council's unemployment rate at December 2009 is 3.4 per cent (2 per cent lower than the national average of 5.4 per cent), recent job losses in the timber mill and associated tourism providers are not reflected; and
- for the Fitzgerald River National Park Road Upgrade and Walk Trail project, the department's assessment was that:

Whilst this project is not in a priority area, the project is in an area experiencing high levels of unemployment following the closure of the BHP Billiton nickel mine at Ravensthorpe in January 2009. Under the Jobs Fund guideline clause 2.4.1 projects must be in areas experiencing high unemployment or vulnerability. You may wish to consider that the previous mine labour force has complementary skills that may be

directly applicable to the construction project and that the project is anticipated to provide support to local service suppliers.

**4.80** Similarly, for the Gladstone Airport Terminal Upgrade project, the department's assessment noted that the Queensland state unemployment rate was above the national average, although the most recently available figures for Gladstone showed an unemployment rate below both the state and national figures. The department did not examine whether the rate was trending upwards or downwards. Instead, the department concluded that the lower unemployment rate for Gladstone compared with the state and national figures 'may not take account of the mobility of the construction/resources work force'.

### **Changed assessment outcome from the initial appraisal**

**4.81** It is reasonable under a staged assessment process for initial assessments to be updated, and potentially changed, as further information is obtained and/or further analysis is undertaken in respect to projects that progress to a subsequent stage of assessment. It is also recognised as being good public administration practice for any changes in grant program assessments, and the reasons for such changes, to be documented so that departments and decision makers can be accountable.<sup>228</sup>

**4.82** As outlined at paragraph 4.10, there were eight projects considered under the IEP stream for which the department's initial appraisal had concluded that the first gateway criterion had not been demonstrably met. In each instance, the final advice to the Minister concluded that this criterion had been met. However, departmental records did not address how factors initially identified as being of concern had either been addressed, or why these factors were no longer seen as being of concern.

**4.83** For example, in its initial assessment of a possible IEP stream project to provide up to an additional \$2.5 million towards the increased cost of the Mackay Multi-Use Stadium project<sup>229</sup>, the department concluded that the unemployment gateway criterion did not appear to have been met. This was

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<sup>228</sup> See, for example, Queensland Crime and Misconduct Commission, *Report on an Investigation into the Alleged Misuse of Public Monies, and a Former Ministerial Adviser*, December 2010.

<sup>229</sup> That project had been earlier approved for funding of \$8 million under the Better Regions Program.

because the project was not located in a Priority Employment Area or an area that was otherwise experiencing high unemployment or vulnerability.

**4.84** In concluding that the criterion did not appear to have been in its June 2010 initial appraisal, the department had also noted that the unemployment rate for Mackay as at the December 2009 quarter was 4.3 per cent, or 1.1 per cent below the national average. The department's full assessment was provided to the Minister the following month, by which time unemployment data for the March 2010 quarter was available. The department now assessed that the project met the unemployment gateway criterion on the basis that Mackay's unemployment rate had increased from 3.0 per cent in December 2008 to 4.1 per cent in March 2010. The department's advice did not:

- compare the March 2010 unemployment rate for Mackay to the national rate (as it had done in its initial assessment)<sup>230</sup>; or
- outline that unemployment in Mackay had reduced by 0.2 per cent in absolute terms between the December 2009 and March 2010 quarters.

**4.85** The department did not document the basis on which it had changed its view as to whether the project met gateway criterion one between its June 2010 initial assessment and July 2010 final assessment. This was despite, on either measure, the level of employment vulnerability in Mackay compared to the national average having, in fact, improved since the data on which the initial assessment had been based.

**4.86** By way of comparison, the departmental assessment of another project proposal<sup>231</sup>, which was provided to the Minister the day prior to the final assessment provided for the additional funding towards the Mackay Multi Use Stadium, drew attention to the regional unemployment rate being greater than the national average as being relevant to assessing that the unemployment gateway criterion had been met by that project. The department's assessment of the MCA Redevelopment and Creation of a National Centre for Creative Learning project similarly drew upon a comparison with the national average to support a final assessment conclusion that the project met the

<sup>230</sup> Although not included in its advice provided to the Minister, the department's risk assessment had identified that the Mackay unemployment rate, as at March 2010, was 1.5 per cent below the national rate of 5.6 per cent at that time (compared with being 1.1 per cent below the national average at the time of the initial assessment).

<sup>231</sup> The Sapper Jacob Moerland Memorial Skate Park project.



unemployment gateway criterion (wherein it was noted that the unemployment rate in greater Sydney was 0.5 per cent higher than the national rate of 5.6 per cent as at the December 2009 quarter).<sup>232</sup>

## Program end date of 30 June 2011

**4.87** The third gateway criterion set out in the Jobs Fund guidelines published in April 2009 required that:

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.

**4.88** This approach was consistent with criteria adopted by the Government for the design of the stimulus packages in that they were to be timely, targeted and temporary.<sup>233</sup> However, the delay in projects being initiated for IEP stream funding consideration, combined with the proposed timeframe for a number of those projects that were selected for initiation, presented assessment challenges for the department in relation to this criterion.

**4.89** For example, the department's analysis of the Cairns Cultural Precinct project (the only project initiated for IEP stream funding consideration that was located in a Priority Employment Area) indicated that the design phase would commence in October 2010 and that construction would not commence until December 2011. The proponent, Cairns Regional Council, subsequently amended the proposed approach to the project with the objective of bringing \$40 million<sup>234</sup> of expenditure forward into 2010–11. In this respect, the construction feasibility IVA report obtained by the department noted that cashflows provided by the proponent showed projected expenditure of \$35.4 million by 30 June 2011, but that:

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<sup>232</sup> The department's initial assessment of that project, which is located in the Rocks in Inner Sydney, was that it was: 'not in a Priority Area or suffering from significant unemployment vulnerability. The Rocks is located in Inner Sydney, which has an unemployment rate of 3.1 per cent and that is below the national average of 5.3 per cent and the Sydney average of 4.6 per cent (DEEWR Labour Market Information Portal—September 2009).' By comparison, the final assessment did not refer to the unemployment rate in Inner Sydney, but instead referenced only the broader Sydney rate.

<sup>233</sup> House of Representatives Standing Committee on Infrastructure, op. cit.

<sup>234</sup> Cairns Regional Council's original proposal had sought \$80.1 million from the Australian Government (\$26.7 million per year over three years) which was later reduced to \$60 million towards Stage 1 of the overall project, but the amount considered for IEP stream funding was \$40 million.



- only some \$3 million of the \$10.8 million for payment to the construction manager would be spent on actual construction in May and June 2011; and
- \$12.5 million of the amount involved prepayment for mechanical plant and furniture, fixtures and equipment.

**4.90** The assessment of this project was on-going as at 30 June 2011.<sup>235</sup>

**4.91** Similarly, in November 2009, the Minister had agreed to Infrastructure contacting the Tasmanian Government to provide guidance about re-scoping the budget and timelines for the Three Capes Track—Multi Day Walking Track and Accommodation project located on the Tasman Peninsula.<sup>236</sup> The department's initial assessment advised the Minister that the proposal did not, at that time, meet the gateway criterion as the project plan stated that construction would not be completed until July 2012.

**4.92** After working with the Tasmanian Government on the proposal, in February 2010 the department recommended to the Minister that he approve \$12.5 million in IEP funding for the project. In respect to the project timetable, a 'Projected Cash Flow Budget—Time Compressed' developed by the Tasmanian Government to inform the department's assessment stated that:

Compared to the non-compressed option, new construction (rather than work on existing tracks) has been brought forward by 6 months (starts January 2011). The effect is to move \$7,475,320 expenditure so it happens before 30 June 2011.

To achieve this approvals and planning will need to be completed in 9 months (rather than the previously scheduled 1 year 3 months) for those new construction stages that are first to start. More track workers would be needed so existing and new work could occur concurrently.

If the 'approvals' subsequently take longer than 9 months then the timing of major budget expenditure on construction items will be delayed, in many cases moving it into the next financial year. It is assumed that such a delay will not alter the funding commitment by the Australian Government.

<sup>235</sup> See paragraphs 1.18, 3.23, 4.7, and 5.41.

<sup>236</sup> This project had originally been the subject of an unsuccessful application to Round 1 of the Jobs Fund and was considered under IEP after the Tasmanian Premier and the Tasmanian Minister for Environment, Parks and Heritage (and Minister for Tourism and Arts) wrote to the Minister in support of the Jobs Fund application.

**4.93** The IVA providers identified a number of risks to the timetable being achieved, but both the providers and the department (in its advice to the Minister) considered these risks to be manageable. The department also assessed that the project satisfied the end date and eligibility date of 30 June 2011 specified in the guidelines at the time funding was approved. However, there was a significant delay in getting an Implementation Plan in place to enable Commonwealth funding to proceed. In this respect, in July 2010, the department recommended that the Minister approve a change to the guidelines to extend the Program end date to 30 June 2012, and advised that this change:

may enable the consideration for funding of three projects currently under development:

- The Three Capes Track (Tasmania) project, which has been approved for funding. Delays mean the project may not longer fit the terms of your approval and existing guidelines for IEP;
- Rugby League Central. You announced in-principle funding in October 2009 but a detailed proposal for assessment has only recently been provided, due to delays in confirming a site; and
- The Cairns Cultural Centre. A proposal to implement this project is currently under assessment by the Department. Extending IEP into 2011–12 will provide greater flexibility in ensuring the efficient use of funds, should you decide to approve the project.

**4.94** On 5 July 2010, the guidelines were amended by way of explanatory note to extend the IEP stream end date to 30 June 2012. The extension assisted to mitigate risks for some projects. For example, in respect to the Rugby League Central project, the department's final assessment advised the Minister that:

Following your decision to extend the IEP program eligibility and end date on 5 July 2010, a revision of the risk assessment was undertaken and a number of risks under project delivery and project sustainability will be mitigated and/or the level of risk reduced to 'Low'.

## Conclusions

**4.95** As outlined in ANAO's Better Practice Guide on the administration of grants, efficient, effective and ethical grants administration aims to:

- equitably and transparently select funding recipients that best represent value for money in the context of the stated objectives of the grant-giving activity; and
- efficiently and effectively deliver Australian Government funding to approved recipients to achieve desired government policy outcomes.<sup>237</sup>

**4.96** For the IEP stream, in 12 of the 13 instances where Infrastructure had completed its assessment of a candidate project as at 30 June 2011, the department recommended to its Minister that funding be approved. In each of these 12 instances, the Minister agreed to the department's recommendation, and approved IEP stream funding. The only instance where a completed assessment has not resulted in the department recommending the approval of funding related to the last project where a full assessment had been completed as at 30 June 2011. In that instance, the department recommended in May 2011 against the approval of funding, in part due to the project not being likely to be completed by the current program end-date of 30 June 2012. The Minister again agreed with the departmental recommendation.

**4.97** In each of the 13 instances where a full assessment has been completed, the assessment advice provided by Infrastructure to its Minister was not based on an analysis that scrutinised the overall quality of each proposal in contributing to the program objectives. Rather, Infrastructure limited itself to being satisfied whether each of the threshold criteria had been met to a minimum standard, and that any identified risks to project delivery could be managed through a funding agreement. Combined with the shortcomings in the processes by which projects were initiated for consideration of IEP stream funding, the assessment approach taken by Infrastructure meant that the focus was not on identifying and selecting funding recipients that best represented value for money.

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<sup>237</sup> ANAO Better Practice Guide, op. cit., p. 3.

**4.98** Departmental assessments of projects were also insufficiently robust and consistent. Of particular note in respect to the projects approved for funding was that:

- there were eight approved projects where the department's initial appraisal concluded that the first gateway criterion had not been demonstrably met. In each instance, the final advice to the Minister concluded that this criterion had been met. However, departmental records did not address how factors initially identified as being of concern either by it or the independent viability assessment had either been addressed, or why these factors were no longer seen as being of concern;
- value for money issues were not addressed by Infrastructure in its assessment work so as to support its advice to the Infrastructure Minister that the approval of funding for projects represented an efficient, effective and ethical use of public money<sup>238</sup>; and
- there were considerable inconsistencies in terms of the approach taken by the department in coming to a view that the gateway criteria had been met by various projects. For example, in respect to the unemployment gateway criterion, focusing on whether the unemployment rate in the project location was higher than national or state averages was used as the basis for the department concluding that this criterion had been met for some projects. For other projects, such analysis would not have supported a conclusion that the gateway criterion had been met and so the department focused, instead, on whether the unemployment rate in the project location had increased in absolute terms (without addressing whether it nevertheless still remained well below the state or national average). For projects where neither of these two considerations would have supported a conclusion that the project was in an area particularly adversely affected by the economic downturn, the department advised its Minister that he could consider 'vulnerability in the construction industry more generally'.

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<sup>238</sup> From 1 March 2011, the relevant requirement was amended such that an approver is not to approve a spending proposal unless satisfied that the expenditure will make efficient, effective, economical and ethical use of the Commonwealth resources.

## 5. Program outcomes

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*This chapter examines the administration of approved projects and progress that has been made in delivering economic stimulus through the IEP stream of the Jobs Fund.*

### Project oversight arrangements

**5.1** 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. In practice, three of the 12 approved IEP stream projects have been governed by the non-binding National Partnership to Support Local Government and Regional Development<sup>239</sup>, and associated bilateral Implementation Plans. Funding for the remaining nine projects has been governed by bilateral funding agreements executed between Infrastructure and the relevant funding recipients.

**5.2** Expeditionary departmental processes to develop and sign funding agreements will assist infrastructure projects being funded under an economic stimulus program to commence and proceed in a timely manner.<sup>240</sup> This is particularly the case given the nature of such projects and, for the Jobs Fund, the fact that the guidelines stipulated that proponents were not to commence activities dependant on the program funding until the funding agreement was signed. However, as illustrated by Figure 5.1, no funding agreements or other oversight arrangements necessary to allow funded projects to proceed were signed until March 2010 (over nine months (37 per cent) into the planned 24 month program life). This is reflective of the significant delays in projects being initiated for assessment of possible IEP stream funding; the time taken to assess many of those projects; and subsequent delays experienced in formalising oversight arrangements for some approved projects.

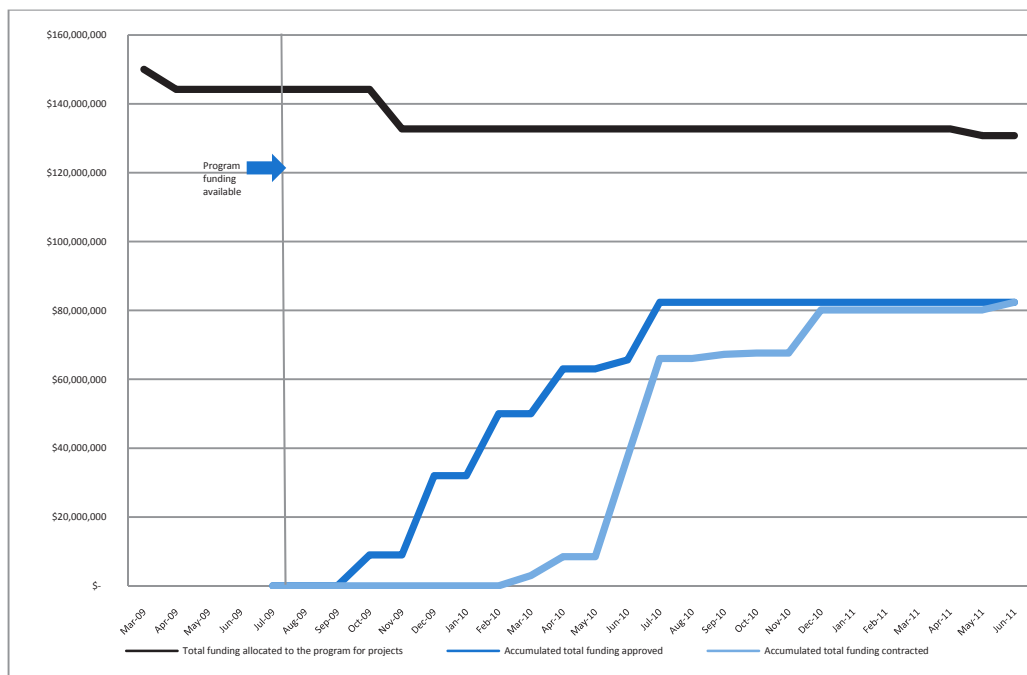
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<sup>239</sup> A National Partnership Agreement made under the *Federal Financial Relations Act 2009* (FFR Act).

<sup>240</sup> ANAO Audit Report No.3 2010–11, op. cit., pp. 207–208.

**Figure 5.1**

### Timing of approval and contracting of available funding for projects under the IEP stream to 30 June 2011



Source: ANAO analysis of Infrastructure data.

## Projects being delivered under a National Partnership Agreement

**5.3** The federal financial framework consisting of the *Federal Financial Relations Act 2009* (FFR Act), the *COAG Reform Fund Act 2008* and the corresponding Intergovernmental Agreement was introduced on 1 January 2009.<sup>241</sup> Under this framework, payments classified as payments to and through the states for general and specific purposes are made centrally through the Department of the Treasury (Treasury). The federal financial framework provides ongoing financial support for the delivery of services by the states through:

- (a) general revenue assistance, including GST payments and other general revenue assistance, to be used by the states for any purpose; and

<sup>241</sup> The FFR Act commenced on 1 April 2009 and applied to payments in the 2008–09 financial year payable from 1 January 2009. Guidance on the operation of the new federal financial framework was issued by the Department of the Treasury on 3 April 2009 (see Federal Finances Circular No. 2009/03).

(b) payments for specific purposes, comprising:

- National Specific Purpose Payments to be spent by the states in key service delivery sectors (examples of which include healthcare, schools, skills and workforce development, affordable housing and disability services); and
- National Partnership payments to support the delivery of specified outputs or projects, to facilitate reforms or to reward the states for nationally significant reforms.<sup>242</sup>

**5.4** The correct classification of payments is important as it determines how each payment is reported in the Australian Government's budget and related papers, and which Commonwealth agency is responsible for making and reporting the payment in financial statements.<sup>243</sup> Payments are classified as either:

- payments to and through the states and territories for general and specific purposes, which are made centrally by Treasury through the federal financial framework arrangements and reported in Budget Paper No.3, Australia's Federal Relations; or
- Commonwealth own-purpose expenses (COPEs), which are expenses made by the Australian Government in the conduct of its own general government sector activities. COPEs may involve payments to other levels of government, in which case the payments are made and reported by the responsible agency.

**5.5** For project-specific payments to a state government entity that are in the nature of a grant, the issue of classification is of particular importance in determining the governance arrangements that will apply to the payment. Specifically:

- payments that are classified as payments to or through the states must be delivered through the federal financial relations framework. In the case of project-specific payments, this will usually occur through a National Partnership Agreement. Such payments are currently

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<sup>242</sup> Department of Finance and Deregulation, Finance Circular 2010/02, *Classification of Payments to the States and Territories and Commonwealth Own-Purpose Expenses*, 14 October 2010

<sup>243</sup> *ibid.*

excluded from the coverage of the grants administration framework<sup>244</sup>; whereas

- payments that are classified as COPEs are not captured by the federal financial relations framework, regardless of whether the funding recipient is a state government entity. Such payments are subject to the grants administration framework and are able to be delivered through a legally enforceable funding agreement.

### *Classification criteria*

**5.6** Two criteria are used to determine whether payments made to other levels of government are recognised as COPEs, being:

- contestability: where the funding is contestable, in that it is available to all sectors of the economy, payments will be classified as COPEs. By way of comparison, where the funding is restricted to other levels of government or particular entities in areas of state government responsibility (such as public hospitals, schools and local councils), it is classified as payments to or through the states or direct to local government<sup>245</sup>; and
- the nature of the transactions: where other governments have responsibility for the activity, the payments will not typically be considered a COPE.<sup>246</sup>

**5.7** In order to prepare Budget Paper No. 3, it is necessary for newly established programs to be classified by Finance as involving either COPEs or payments to other levels of government. In this respect, in June 2011 Treasury advised ANAO that:

We acknowledge that it can be difficult to make classification decisions in the Budget context when program design and implementation details are yet to be determined. Finance, using the principles articulated in the Finance Circulars,

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<sup>244</sup> FMA Regulation 3A(2) stipulates a number of arrangements that are taken not to be grants and to which, therefore, the CGGs do not apply. This includes a payment to a State or Territory that is made for the purposes of the FFR Act, including General Revenue Assistance, Other General Revenue Assistance, National Specific Purpose Payments and National Partnership Payments.

<sup>245</sup> Payments to local government entities are only excluded from the coverage of the grants administration framework where they involve a payment that is made for the purposes of the *Local Government (Financial Assistance) Act 1995* (see FMA Regulation 3A(2)(i)).

<sup>246</sup> Finance Circular 2010/02, op. cit.



will determine the classification based on the facts provided at that time and, where there is doubt, will take a conservative view and assign a COPE classification. Treasury's current practice is to advise Commonwealth portfolio agencies to revisit classification decisions in consultation with Finance once program design and implementation details are known, before starting the process of developing a new National Partnership.

### *Classification of Jobs Fund payments*

**5.8** In accordance with the Government decisions establishing the Jobs Fund, the program guidelines issued in April 2009 provided that funding under each stream would be open to a range of entities, with the eligible entities not being restricted to other levels of government.<sup>247</sup> Accordingly, funding under each stream of the Jobs Fund was contestable, and the types of projects that could be funded were not restricted to areas of state government responsibility. In addition, the published guidelines stipulated that all grants would be subject to legally enforceable funding agreements, and did not contemplate that payments to state government entities would be made under the framework of a National Partnership Agreement.<sup>248</sup> In this context, for the May 2009 Budget, Finance classified the Jobs Fund in its entirety as involving COPEs.

**5.9** The program guidelines stated that it was anticipated that projects initiated by the Australian Government under the IEP stream would be jointly funded with state and territory and/or local governments.<sup>249</sup> However, the guidelines did not contain any requirement that the project proponent and funding recipient be a state/territory or local government entity. None of the IEP stream funding was quarantined or otherwise set aside exclusively for payments to other levels of government, and it was possible that no approved projects would involve payments to a state government entity. As it

<sup>247</sup> Revised guidelines published in November 2009 for Round 2 of the Local Jobs and Get Communities Working streams included amended eligibility requirements under which state and territory governments (and local government authorities) were ineligible to apply, except for Indigenous community councils. As is discussed further at paragraph 2.58, the original Jobs Fund guidelines, under which state and territory governments and local government authorities were eligible to receive funding, continue to apply to the IEP stream.

<sup>248</sup> Instead, a model funding agreement was developed as part of the program documentation for use and adaptation, as necessary, across the Jobs Fund streams.

<sup>249</sup> This reflects the approach commonly adopted under Australian Government grant programs in which there is an expectation that state governments will make a funding contribution toward the cost of a project being proposed by a third party proponent.

eventuated, the first project initiated for consideration of possible IEP stream funding potentially involved payments to a state government entity (although the works were being delivered by a Commonwealth entity). The next two projects initiated involved private sector proponents, with the fourth and fifth projects initiated involving state government proponents. The remaining initiated projects involved local government authorities, non-profit organisations and private sector entities.

**5.10** In October 2009, after funding had been approved for the first IEP stream project (for which the funding recipient was a state government entity), Infrastructure became aware from interactions with Treasury<sup>250</sup> that a National Partnership Agreement may need to be developed to enable IEP payments to be made to the states. By this time, various state-delivered projects had already been approved under other elements of the Jobs Fund, with the relevant departments being in the process of executing funding agreements with each successful applicant.<sup>251</sup> However, Infrastructure's January 2010 advice to its Minister in relation to the IEP stream was that:

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<sup>250</sup> Neither Treasury nor Infrastructure consulted Finance about reclassifying payments made under the IEP stream to a state government entity as being not a COPE. In respect to its role in the reclassification of the relevant IEP stream payments, in June 2011 Infrastructure advised ANAO that it 'responded to the advice it received from central agencies that it needed to provide funding to state governments through a National Partnership Agreement to ensure it had appropriate governance arrangements in place to allow those projects to proceed.' As noted at paragraph 5.7, in June 2011 Treasury advised ANAO that its current practice (which September 2011 Treasury advice confirmed had been adopted in mid-2010, subsequent to the decision to reclassify the relevant IEP stream payments from COPEs to payments to the states and territories) is to advise Commonwealth portfolio agencies to revisit classification decisions in consultation with Finance once program design and implementation details are known.

<sup>251</sup> This included projects approved under the bike paths component Jobs Fund also being administered by Infrastructure. In this respect:

- nine state/territory government entities submitted 39 of the 266 applications that were allocated to the bike paths component of the Local Jobs stream for assessment. Of those, 29 projects were approved for grant funding totalling \$1.84 million payable. The grant payments made in respect to these projects are governed by funding agreements, with no payments being made under the FFR Act. The funding agreement used in respect to 27 approved projects to be delivered by the South Australian Department of Transport, Energy and Infrastructure was executed by Infrastructure in January 2010, the same month in which the department advised its Minister of the requirement for a National Partnership Agreement for payments to the states under the IEP stream of the Jobs Fund;
- there were at least 18 projects approved in 2009–10 for a total of \$12.08 million in grant funding payable to a state government department under the heritage component of the Local Jobs stream, each of which is governed by a separate funding agreement; and

Footnote continued on the next page...

While the department had sought to continue using traditional funding agreements, the Treasury has confirmed there is no scope to fund state governments other than through a National Partnership. This will not affect payments to entities other than state/territory governments and agencies, although Treasury has indicated the COAG reforms may be expanded in future to include payments to local government.

### *Implications for program management processes*

**5.11** As there had been no prior consideration of the development of a National Partnership Agreement, the assessment and approval processes adopted for the IEP stream did not contemplate that:

- there might be a considerable delay between projects being approved and project oversight arrangements being finalised; or
- that certain risk treatments intended to be included in the funding agreement to support the risk assessment undertaken could not be incorporated into the project oversight document where a National Partnership Agreement was required.<sup>252</sup>

### *Implementation delays*

**5.12** In respect to the first issue, the development of a National Partnership Agreement requires inter-governmental negotiation of a non-legally binding document. It was ultimately determined that an overarching National Partnership Agreement would be developed with the states and territories to implement initiatives for regional development and local government programs. Programs subject to the Agreement would be identified through schedules. The only programs to which the Agreement has been applied to date are the IEP stream of the Jobs Fund and the Local Government Reform Fund. Individual projects funded under each program are governed by

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- there were three projects approved for a total of \$1 million in grant funding payable to a state under Round 1 of the general component of the Local Jobs stream, each of which is governed by a funding agreement. In a further instance, an application submitted by a South Australian state government department was assessed and approved for funding and a draft funding agreement was sent to that department. However, at the request of the state government department, the funding agreement was subsequently executed with the South Australian Local Government Authority on the basis that, although the application was submitted by the state government department, the project was not a state government project and the Jobs Fund funding was intended to be a contribution to the cost of a project being implemented by a number of local government authorities with the Local Government Authority performing a co-ordinating role.

<sup>252</sup> See paragraph 4.44.

bilateral Implementation Plans agreed under the Agreement between the relevant state and Australian Government Ministers.

**5.13** Implementation Plans have been developed and approved by the Minister in respect to three projects approved for funding under the IEP stream of the Jobs Fund. For two projects, the Implementation Plan relates to a project being delivered by the relevant state government, namely:

- the Fitzgerald River National Park Road Upgrade and Walk Trail project (Implementation Plan approved on 16 June 2010), with Main Roads Western Australia as the relevant state government delivery agency for a project that involves the reconstruction and sealing of some 80 kilometres of access roads, upgrading of recreational day visit and camping site facilities and construction of some 50 kilometres of walking trail; and
- Three Capes Walk-Multiday Walking Track with Accommodation (Implementation Plan approved on 1 December 2010), with the Tasmanian Parks and Wildlife Service as the relevant state government delivery agency for a project that involves the upgrade of existing trails, planning and design of new accommodation and infrastructure as well as the construction of new walking trails, accommodation and assorted amenities.

**5.14** The third project with an Implementation Plan is the Queensland Symphony Orchestra Co-Location project. The Implementation Plan was approved on 15 June 2010. The funding arrangements for this project involved:

- Australian Government funds being channelled by Queensland Treasury through Arts Queensland and onto the Queensland Symphony Orchestra; and
- in turn, the Queensland Symphony Orchestra paying the Australian Broadcasting Corporation (ABC), which was the (Australian Government) agency that was undertaking the project to construct its new headquarters at which the Queensland Symphony Orchestra would be located.

**5.15** In this respect, in April 2010 the Queensland Treasury had advised Infrastructure that it had concerns about the Implementation Plan being prepared for the project. Specifically, Queensland Treasury advised:

The key issue is that the project is not being undertaken by the State but by the Australian Broadcasting Corporation and an independent body (the Queensland Symphony Orchestra). As such it is not appropriate for Queensland to bear any of the financial risk associated with this project.

**5.16** To address the state's concerns, changes were made to the Implementation Plan, the most significant of which meant that, whilst the other Implementation Plans provided that the relevant state would bear all risks should the costs of the project exceed the estimated cost (as well as any savings being retained by the state)<sup>253</sup>, the Implementation Plan for the Queensland Symphony Orchestra Co-Location project stated that:

For this project, the Commonwealth will make a financial contribution capped at \$9 million; the State will make a financial contribution capped at \$3 million, as specified in Table 2 of this Schedule. Where the costs of the Queensland Symphony Orchestra project exceed the agreed estimated costs, the State will work with the Queensland Symphony Orchestra to ensure satisfactory value for money facility outcomes are delivered for the project within available funding.<sup>254</sup>

**5.17** Accordingly, in June 2010, when being asked to sign the Implementation Plans for the Queensland Symphony Orchestra Co-Location and Fitzgerald River National Park Road Upgrade and Walk Trail projects, the Infrastructure Minister was advised that:

Your approval of the Queensland Symphony Orchestra project was premised on advice that any cost overruns would be met by the Queensland government. As the construction of this project is the responsibility of a third party, holding the Queensland government responsible for any cost overruns is inconsistent with the IGA framework.

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<sup>253</sup> Implementation Plans with this clause stated that: 'The Parties acknowledge that this arrangement provides the maximum incentive for the state to deliver projects cost effectively and efficiently.' ANAO notes that it can also provide an incentive for project estimates to include more generous contingency figures so as to reduce the likelihood of the state having to meet any cost overruns (and increasing the possibility of 'savings').

<sup>254</sup> The overall project budget was specified in Table 2 of the Implementation Plan as being \$14 million, with a \$2 million contribution also to come from the Queensland Symphony Orchestra.

**5.18** Against this background, the department's assessment of the second progress report for the project noted as follows:

This progress report was received incomplete four weeks after it was due, indicating some of the difficulties associated with a third party overseeing the delivery of milestone activities.

**5.19** The National Partnership Agreement to Support Local Government and Regional Development was not finalised until May 2010. This was seven and five months respectively after funding had been approved for the first two projects under the IEP stream for which the funding recipient was to be a state government entity.<sup>255</sup> While unforeseen, such delays affected the ability of the program to deliver timely economic stimulus, particularly given the program guidelines required that proponents not commence the funded activities until a funding agreement had been signed.<sup>256</sup>

#### Risk management

**5.20** The hybrid nature of the funding oversight arrangements implemented for the IEP stream has also had implications for Infrastructure's intended management of project risks for approved projects. In particular, the Implementation Plans for projects being funded through National Partnerships Agreements are required to avoid the use of financial or other input controls. As a result, as discussed at paragraphs 0 to 4.48, whilst Infrastructure had intended to manage most project-specific risks identified during the assessment of candidate IEP stream projects through clauses to be included in the funding agreement executed with the relevant proponent, some of the intended contractual controls were unable to be employed in respect to those projects that involved payments to a state.

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<sup>255</sup> The third IEP stream project for which the funding recipient is a state government entity (the Three Capes Walk-Multiday Walking Track with Accommodation in Tasmania) was initiated for funding consideration in October 2009 and approved for funding in February 2010. Although the National Partnership Agreement was operational from May 2010 and agreed by the Tasmanian Premier in June 2010, significant further delays were then experienced in reaching agreement on the scope and timing of the funded project, with the relevant Implementation Plan not being agreed with the state government until December 2010.

<sup>256</sup> As noted at paragraphs 2.59 to 2.62, apart from changing the published guidelines, by explanatory note, to reflect that the IEP stream end date has been extended by twelve months to 30 June 2012, no other changes have been made to the guidelines applying to the IEP stream to reflect the actual operation of the program, including with respect to the hybrid governance arrangements that have subsequently been adopted for approved projects.

**5.21** Against the above background, in June 2011 DEEWR commented to ANAO that:

a Commonwealth Own Purpose Expenditure (COPE) was the appropriate payment mechanism for Local Jobs and Get Communities Working streams. As noted by the ANAO, the guidelines stated that 'all grants would be subject to legally enforceable funding agreements'; in addition they were available to all sectors of the economy under a competitive grants program. Therefore the grants to state and territory governments are correctly classified as COPEs under the standard tests applied by Finance.

The audit report should also note that, given the urgency inherent in responding to the global financial crisis, and that the general components of the Jobs Fund were a competitive grants program (where neither the volume nor source of proposals could be anticipated) negotiating National Partnership arrangements was unrealistic and incompatible with the use of input controls as proposed.

#### *Review of the classification of Jobs Fund payments*

**5.22** Similar to the Local Jobs and Get Communities Working streams, the program guidelines stated that approved funding under the IEP stream would be governed by legally binding funding agreements, all sectors of the economy were eligible for IEP stream funding and it was not possible to anticipate the volume or source of proposals that might be initiated for consideration of IEP stream funding. In this context, there was a risk that Infrastructure and Treasury were incorrect in reclassifying as not being COPEs the \$31.5 million in IEP stream that is being paid to state government entities. In June 2011, Finance advised ANAO that, in response to the concerns raised by the ANAO in this regard, it would review the reclassification of payments under these three projects. In August 2011, Finance advised ANAO that:

After examining the IEP selection process, Finance concludes that the funds are contestable, similar to other parts of the Jobs Funds, since any sector can access the funds. Therefore, in accordance with the guidelines of the classification of payments to the State and Territories and Commonwealth Own-Purpose Expenses (COPEs) outlined in Finance Circular 2010/02, the three IEP projects should be classified as COPEs.

**5.23** In the context of this advice, ANAO drew Finance's attention to the implications for the future administration arrangements for any payments made in relation to these projects, including the potential need to transfer the remaining administered appropriation in relation to each of the three projects back from Treasury to Infrastructure.



**5.24** More broadly, in June 2011 Treasury advised ANAO that:

Consistent with the findings and recommendations of the Heads of Treasuries review [*of agreements under the Intergovernmental Agreement on Federal Financial Relations*], we would support strengthening the payment classification process to require Commonwealth portfolio agencies to consult with Finance on the classification of payments before any decision is made on the appropriate funding mechanism and, specifically, before a National Partnership is developed.

## **Project progress**

**5.25** An important element of grants administration is for agencies to efficiently and effectively deliver Australian Government funding to approved recipients to achieve desired government policy outcomes.<sup>257</sup> In this context, the department actively monitored the provision of progress reports by funding recipients, and analysed the reports that were provided against the terms of the relevant funding agreement/Implementation Plan. The department has also conducted site visits of some projects to assist in monitoring progress. In combination, these processes have allowed the department to be informed about the progress being made by proponents in implementing the approved projects.

**5.26** Most of the contracted projects have, to date, proceeded broadly in accordance with the contracted milestones and consistent with the scope of work at the time funding was approved. As of June 2011, construction work in respect to four of the 12 projects had been completed in full.<sup>258</sup> The remaining eight projects were due to be completed between October 2011 and November 2013.<sup>259</sup>

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<sup>257</sup> ANAO Better Practice Guide, op. cit., p. 3.

<sup>258</sup> This includes The Wayside Chapel Redevelopment project, for which a certificate of occupancy was expected to be received by mid-July 2011.

<sup>259</sup> In four cases, the IEP stream funding was scheduled to be paid in full to the funding recipient prior to the overall project to which the funding relates being completed. Two of those projects are not scheduled to be completed until after the revised IEP stream completion date of 30 June 2012. These are the Three Capes Walk-Multiday Walking Track with Accommodation project, scheduled to be completed by November 2013, for which all IEP stream funding is scheduled to be paid to the Tasmanian government by 30 June 2012, subject to relevant elements of the project being completed; and the Wandong Memorial Stadium project, scheduled to be completed by September 2012, for which all IEP stream funding is scheduled to be paid to Mitchell Shire Council by 30 June 2012.



**5.27** Most of the projects are proceeding with no evidence of significant changes in estimated cost to complete the funded works. In one instance (the Community Camping and Day Visitor Sites Upgrade project), savings of some seven per cent had been achieved in project implementation allowing additional works to be undertaken, with the Infrastructure Minister approving a change of scope allowing for three additional sites to be upgraded in February 2011. The varied scope of works was completed in June 2011.

**5.28** In another instance (the Gladstone Airport Terminal Upgrade), project costs had increased by some 28 per cent (due largely to an underestimation in the original costing together with the contractor finding rock and then soft ground during excavation works). As noted at paragraphs 4.42 to 4.43, the funding agreement was varied to require the proponent to meet the extra costs (originally, the project was to have been fully funded by the Australian Government).<sup>260</sup>

**5.29** Progress with some of the projects has been affected by the natural disasters that occurred in Queensland in the summer of 2010–11. With one exception, the funding agreements signed by the department require the funding recipient for the affected projects to have in place all insurance policies necessary for the completion of the project. The exception relates to the Queensland Symphony Orchestra Co-Location project. As the funding arrangements for that project are governed by an Implementation Plan under the National Partnership Agreement, controls of this nature are not able to be specified by the Commonwealth.

## Payment and expenditure of grant funding

**5.30** In an earlier audit of an economic stimulus program administered by Infrastructure, ANAO noted that:

- for project-based grants, value for money and sound risk-management can be promoted by funds becoming payable only upon the demonstrated completion of work that represents a milestone defined in the relevant funding agreement; and

<sup>260</sup> Similarly, increased costs associated with the completed Domain Tennis Centre Upgrade project were met from sources other than the Australian Government.

- determining the funding to be paid upon reaching a milestone by reference to actual project expenditure expected to be incurred to that date protects public money<sup>261</sup> and, in the context of economic stimulus programs, means that program payment data can be relied upon as a reliable measure of the extent to which the program has made a substantive contribution to economic activity, rather than simply transferring funds from the Commonwealth to the approved funding recipients.<sup>262</sup>

**5.31** In this respect, the Jobs Fund guidelines stated that payments would: generally be structured to provide for:

- the release of between 25%–50% of funds to proponents for the initial payment, depending on the total funding amount and the nature of the project;
- the first payment to be made on receipt of the signed funding agreement and an Australian Taxation Office compliant tax invoice and other relevant documentation; and
- remaining funds will be paid incrementally depending upon achievement of negotiated milestones, a satisfactory milestone report, and receipt of compliant tax invoices.

**5.32** For the three IEP stream projects contracted through an Implementation Plan agreed with the relevant state, the first payment was made upon approval of the Implementation Plan. These payments ranged from 20 per cent to 50 per cent of the total grant amount. For the remaining approved projects, where the department had more discretion in terms of the funding arrangements:

- the amount of the first payment ranged from two per cent of the total grant up to a maximum of 42 per cent of the total grant (with an average of 23 per cent);
- there were no instances where the initial payment was made solely because the funding agreement had been signed. In each case, the

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<sup>261</sup> In other words, it is not advisable for agencies to draft funding agreements such that a grant instalment will become payable in response to achievement of a stage in the project that does not give rise to significant costs to the proponent.

<sup>262</sup> ANAO Audit Report No.3 2010–11, op. cit., pp. 222–223.

relevant milestone required the funding recipient to evidence that the project planning was underway or that the project was soon to commence. For example, first milestones commonly included requirements for the department to be provided with copies of relevant approvals; to demonstrate that the tender process to appoint a construction contractor was underway; or that a construction contractor had been appointed; and

- later payments were also linked to project-specific milestones.

**5.33** Progress payments were only made after the department had obtained a progress report and satisfied itself that the milestone requirements had been met. In instances where the department assessed that most, but not all, of the requirements for a particular milestone had been met, the approach adopted was to make a partial payment of the milestone payment. For example, in December 2010 the department informed Gladstone Regional Council that a partial payment equivalent to 80 per cent of the third milestone payment would be made in relation to the Gladstone Airport Terminal Upgrade project. This reflected the department's assessment that a number of items relevant to that milestone had not yet been met. Council was informed that the department expected these items to have been completed before the next milestone and payment were due but that, if they were completed sooner (with appropriate evidence provided), then a further payment would be made.

**5.34** There was also evidence that the department was aware of the importance of only making second and later payments once the funding recipient had either spent previous payments or they would be spent in the near future. For example, in respect to the MCA Redevelopment and Creation of a National Centre for Creative Learning project, the second milestone involved a payment of \$2 million. The relevant progress report and associated invoice were submitted to the department in August 2010. However, the department informed the funding recipient that, whilst the milestone requirements had been met, the second payment was not to be made at that time as none of the \$3 million paid upon completion of the first milestone requirements had been spent and the project's expected cashflow indicated that further funds would not be required until early October 2010.

**5.35** The \$2 million payment for the third milestone for this project (nominally due in October 2010) was also withheld until evidence was provided that further Australian Government funding was required. After this

was provided, the second payment was made (in November 2010). Subsequent milestone payments have been made based on reported progress.

## Spending of economic stimulus funding

**5.36** The 2009–10 Budget provided that, of the \$144.2 million in administered IEP funds that was originally available to fund projects, \$76.3 million (53 per cent) would be spent in 2009–10 and \$67.9 million in 2010–11. As noted at paragraph 1.15, the program funding available for projects was reduced through the 2009–10 Additional Estimates process by \$11.5 million to \$132.7 million.<sup>263</sup>

**5.37** Further changes to the program funding arrangements were made in January, June and July 2010 through the rephasing of the expected timing of program expenditure. Specifically:

- in January 2010, the then Finance Minister was advised that underspends had occurred due to delayed initiation of projects<sup>264</sup> and uncertainty about the appropriate type of funding instrument for the program.<sup>265</sup> It was agreed that \$34.6 million in program funds would be moved from 2009–10 to 2010–11;
- in June 2010, a further \$13.4 million in program funds was moved from 2009–10 to 2010–11. The then Finance Minister was informed that this was necessary due to insufficient projects having been initiated in time for expenditure to occur in 2009–10<sup>266</sup>; protracted negotiations on the National Partnership Agreement for Local Government and Regional Development required for payments to three projects administered by the states; and delays in the selection of a site for one project which had meant that risk assessment of the project had not yet commenced; and

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<sup>263</sup> As noted at footnote 47, funding for the IEP stream had been appropriated partly to Infrastructure (\$91.2 million) and partly to the Department of the Treasury (\$41.5 million).

<sup>264</sup> The then Finance Minister was informed that, to that date, six projects had been put forward for consideration but only three projects had been approved, with contract negotiations still underway for each of the three approved projects.

<sup>265</sup> See paragraphs 5.1 to 5.24.

<sup>266</sup> The then Finance Minister was informed that, to that date, 15 projects had been put forward for consideration and six projects had been approved.

- in July 2010, \$42.4 million in program funds was moved into 2011–12 (\$3 million from 2009–10 and \$39.4 million from 2010–11) as a result of further delays in program implementation.<sup>267</sup> In this context, on 5 July 2010, the Infrastructure Minister had approved a revised end date for the IEP program of 30 June 2012 (from 30 June 2011). This extension was reflected in an amendment to the program guidelines by way of an explanatory note, with the identified reason for this change being due to projects funded under the stream proving to be more complex than was envisaged at the program's inception, with projects requiring detailed pre-construction development (see paragraph 2.62).<sup>268</sup>

**5.38** Figure 5.2 illustrates the budgeted expenditure profile for the IEP stream of the Jobs Fund following the 2010–11 Additional Estimates process and, subsequently, the 2011–12 Budget process. It shows continued slippage in program spending from the original expectation that all funds would be spent across two financial years (2009–10 and 2010–11), with more than half of the funding to be spent in the first year. By the 2011–12 Budget, a substantially different outcome was being budgeted, with:

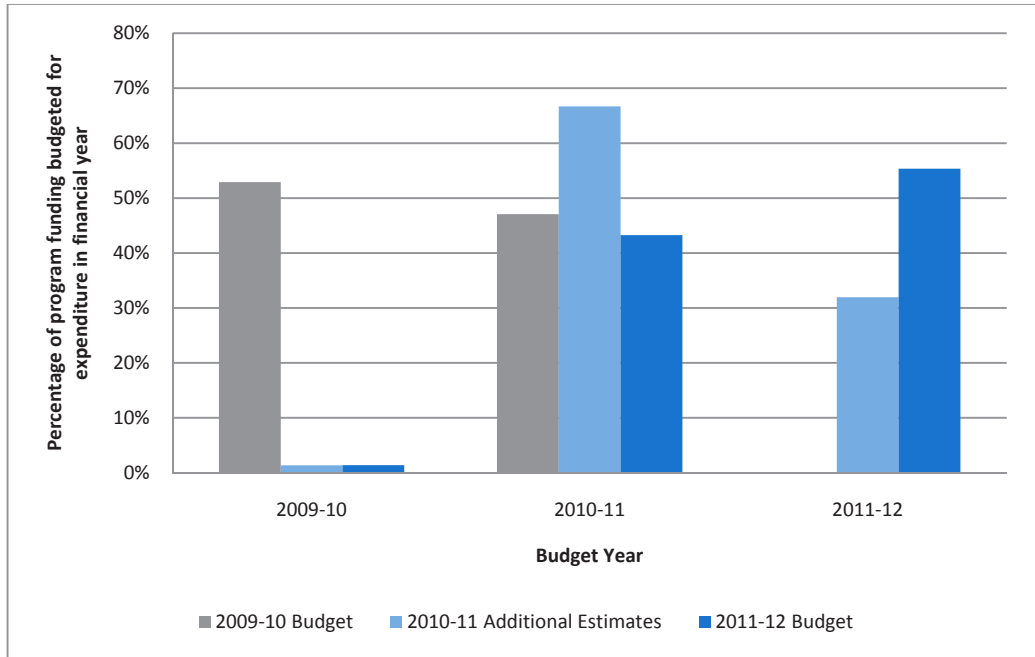
- very little actual expenditure having occurred in 2009–10 (one per cent of program funding);
- less than half (43 per cent) of expenditure expected to have occurred in the second year; and
- substantial slippage into a third financial year (with 55 per cent of total program expenditure now budgeted to occur in 2011–12).

<sup>267</sup> The then Finance Minister was advised that, to that date, 17 projects had been put forward for consideration and eight projects had been approved with 'in-principle' approval of funding for a further two projects (subject to further development of the concepts and a full assessment by the department).

<sup>268</sup> The published explanatory note for the amendment stated as follows: 'To date the IEP program has been used to fund Australian Government initiated projects which, while varying in size, have tended to be strategic projects which require detailed pre-construction development. These projects have the potential for long term economic and employment benefits but are more complex than was envisaged at the Program's inception. The Jobs Fund–IEP Guidelines have been amended to reflect a revised end date from 30 June 2011 to 30 June 2012 to allow such projects to be considered for funding.'

**Figure 5.2**

**Budgeted expenditure on IEP stream projects**



Source: ANAO analysis of Portfolio Budget Statements and Portfolio Additional Estimates Statements.

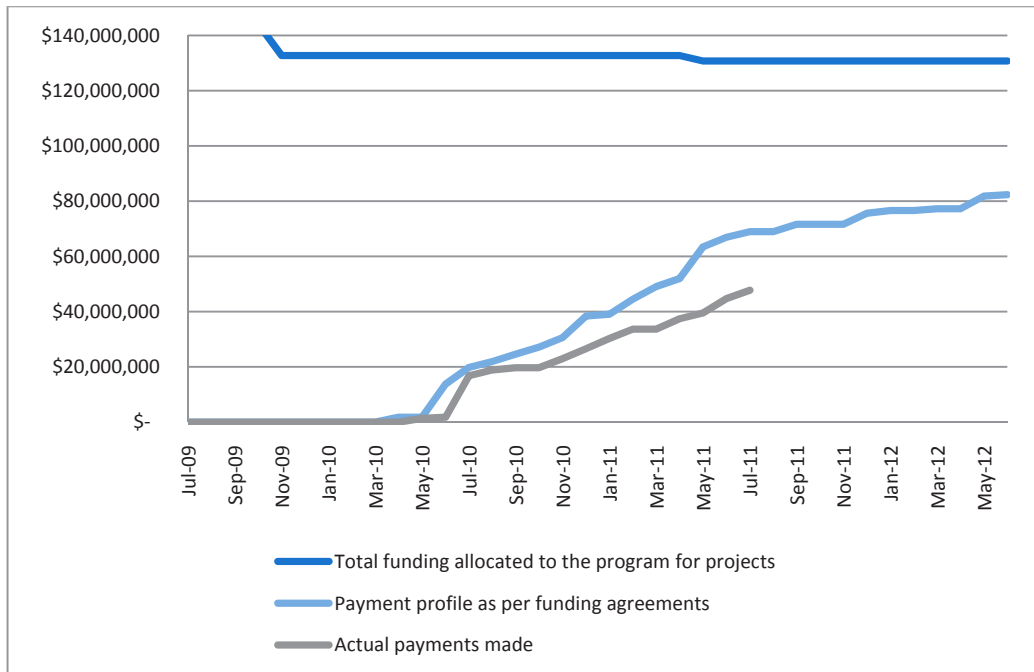
**5.39** In February 2011, Infrastructure had advised its Minister that, at that time, an underspend of at least \$16 million against the revised allocation for 2010–11 was expected. This figure related to funding allocated for 2010–11 against two projects still in assessment (Cairns Cultural Precinct and Essendon Sporting and Community Hub) due to doubts about whether either project was sufficiently advanced such that any program funding would be needed in 2010–11. The Minister was further advised that recent flood and cyclone events had delayed all four Queensland projects to varying degrees, which could add further to the anticipated program underspend for 2010–11. As it eventuated, as illustrated in Figure 5.2, the 2011–12 Budget Papers:

- rephased a total of \$22.5 million from 2010–11 to 2011–12, meaning that some 55 per cent of program funding for projects would not be spent until at least the third year of what had originally been intended to be a two year economic stimulus spending program; and
- further reduced the total funding allocated to the IEP stream for projects by \$1.969 million from \$132.733 million to \$130.764 million.

**5.40** Against this background, the IEP stream has not provided the planned level of stimulus spending in the timeframe that had been budgeted at the time the Jobs Fund was introduced. Figure 5.3 illustrates that, whilst there has been some delay in actual payments being made compared with the contracted cashflows, this has not (as at June 2011) been a significant factor in the program under-performing in terms of delivering timely economic stimulus spending.

**Figure 5.3**

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



Source: ANAO analysis of departmental data.

## Closure of IEP stream

**5.41** As at June 2011, the program funding that had not been contracted had been allocated by Infrastructure against one project (the Cloncurry Community Precinct project) for which a recent decision had been taken not to proceed with further consideration of IEP stream funding (of \$2.4 million), and two projects for which assessment work was not yet completed (a combined allocation of \$46 million). February 2011 advice from the department to its Minister was that the two unapproved projects were unlikely to be completed by the revised program end date of 30 June 2012.

**5.42** As discussed at paragraphs 1.18, 3.75 and 4.17, in June 2011 the Minister agreed to departmental recommendations that:

- given the IEP stream was to finish at the end of 2011–12, the IEP stream should be closed for new projects not already approved or given in principle agreement;
- a new administered item be established outside of the IEP stream with the \$2.4 million in unallocated funds from the IEP stream, to be used for the Cloncurry Community Precinct project, due to concerns that the project may not be completed before the revised program end-date of 30 June 2012. By removing funds from the IEP stream and establishing a new administered item, the project would no longer be assessed against the Jobs Fund guidelines in deciding whether to approve the spending of public money; and
- note that the remaining two potential IEP stream projects (the Cairns Cultural Precinct and the Essendon Sporting and Community Hub) with an aggregate value of \$46 million, which had been initiated for IEP stream funding consideration in April and May 2010 respectively, could in the future be similarly removed from consideration under the IEP stream (given IEP stream funding was to end on 30 June 2012) and progressed as separate administered items using the available IEP stream funds. This approach was being contemplated given continuing doubts about whether these two projects would commence and be completed by the revised program end-date of 30 June 2012. As noted at footnote 49, funding commitments in relation to these two projects were announced in August and July 2010 respectively. In September 2011, Infrastructure advised ANAO that these matters were still under consideration by government in relation to both projects, with a decision yet to be made.

## Employment outcomes

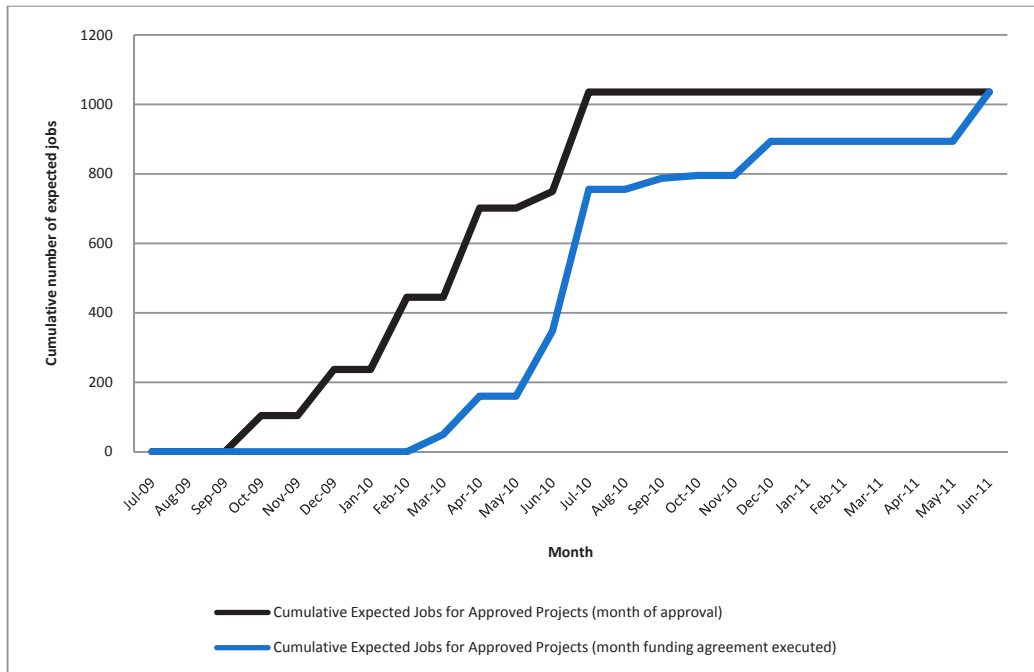
**5.43** The IEP stream has objectives directly related to supporting jobs in communities most affected by the economic downturn. In this respect, in seeking funding, the proponents of the 12 projects that were ultimately approved for IEP stream funding had indicated that, in aggregate, their projects would create or retain more than 250 short term jobs and more than 650 long term jobs as well as 57 work experience positions and 50 traineeships.



**5.44** However, as illustrated by Figure 5.4, as a consequence of the delays in projects being initiated and subsequently approved for IEP stream funding, it was not until some months into the planned two year program that significant expected employment outcomes were able to be identified. The capacity to generate timely economic stimulus and the expected employment outcomes was further affected by subsequent delays that were experienced in finalising funding agreements for a number of approved projects. Consequently, it was not until mid-2010 that arrangements were in place to enable some approved projects to commence in order that they could start generating the proposed employment outcomes.

**Figure 5.4**

**Cumulative expected jobs for approved IEP projects as at month of approval and month of funding agreement execution**



Source: ANAO analysis of Infrastructure data.

**5.45** It was not until August 2010 that any project proponent reported to Infrastructure that an IEP stream project had created or retained any jobs. In respect to the number of jobs that have been created or retained, for some projects the proponent has reported to Infrastructure that employment outcomes are in excess of those anticipated when funding was approved. For

other projects, the number of jobs reported as having been created or retained has been less than that anticipated when funding was approved.

**5.46** A notable aspect of the approach taken to the identification of actual employment outcomes achieved through projects funded under the IEP stream is that proponents have used a variety of bases to calculate the jobs reported as having been created or retained at various stages of project implementation. Proponents have also varied in whether, and the extent to which, they have provided evidence substantiating the job numbers reported to the department. In this respect, in June 2011, Infrastructure advised ANAO that:

There are a number of potential ways of estimating jobs supported by a project, such as the number of inductees, averaging the number of employees over time, or applying relevant multipliers to the expenditure to derive a figure. The department now seeks the basis for employment estimates at the final report stage.

**5.47** As at June 2011, the final report stage had not yet been reached for the majority of the 12 approved projects. As a consequence, it is difficult to reliably aggregate the employment outcomes reported in relation to individual projects as one element of evaluating the extent to which the program has achieved its objectives. To date, the department has not sought to undertake such evaluation. In respect to the IEP stream, Infrastructure's internal procedures manual outlines that:

- a Post Implementation Review would be conducted in order to 'identify and document the IEP Program's achievement of outcomes and outputs as stated in Jobs Fund Guidelines'<sup>269</sup>; and
- a Post Program Review will be conducted after the completion of the program on 30 June 2012 in order to identify and document 'how the program delivered on the objective to support and create jobs and skill development through projects that build community infrastructure and social capital in local communities.' It was further stated that:

The process for developing lessons learned may run through the program life cycle, with lessons documented in the PPR Report. The lessons learned document could be developed via a workshop which

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<sup>269</sup> In June 2011, Infrastructure advised ANAO that it had yet to settle a position on the expected timing of this review.

includes all team members, the Program Manager, Program Owner and other executive staff and representative stakeholders.

**5.48** Infrastructure advised ANAO in June 2011 that:

While delivery of employment outcomes is clearly an important component of the objective, the department contends that it is not of greater consideration than the construction of the infrastructure for the community's benefit.

## **Priority Employment Areas**

**5.49** As noted, to be eligible for funding under any of the streams of the Jobs Fund, a project did not need to be located in a Priority Employment Area. Rather, the Priority Employment Areas had been identified as those with labour markets that were most likely to be affected by the global financial crisis. As at 30 June 2011, there had been no projects approved or contracted for IEP stream funding in any Priority Employment Area. The only project considered for IEP funding that was located in a Priority Employment Area was the Cairns Cultural Precinct project. However:

- that project was not initiated for funding consideration until April 2010, well after the onset of the global financial crisis;
- the department has identified that there are concerns around the feasibility of the project;
- the project requires substantial partner funding from the Queensland Government, which has not been committed, and so the project may not proceed particularly in light of the priority being given in that state to natural disaster recovery and reconstruction; and
- the department's assessment is that significant construction on the project will not be possible prior to 30 June 2012, meaning funding for the project is outside both the original (30 June 2011) and revised (30 June 2012) end dates for economic stimulus spending under the IEP stream.<sup>270</sup>

**5.50** In this respect, the IEP stream has made no contribution to addressing employment challenges in those areas identified by DEEWR as experiencing pronounced labour market disadvantage (the Priority Employment Areas). In

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<sup>270</sup> See further at paragraph 5.41.

this respect, notwithstanding the implementation of various programs under the Jobs and Training Compact, DEEWR has identified that the Priority Employment Areas continue to experience higher levels of employment disadvantage (see paragraph 4.66).

## Conclusions

**5.51** The 12 construction projects that have been approved for funding and contracted for delivery under the IEP stream of the Jobs Fund will provide benefits through the delivery of community infrastructure in a number of different localities across Australia. For example, in respect to employment benefits, in being asked to approve funding the Minister had been advised by Infrastructure that the 12 approved and contracted projects would, in aggregate, create or retain more than 950 jobs as well as 37 work experience positions and 42 traineeships.

**5.52** Consistent with the importance of the program providing timely economic stimulus, Infrastructure sought to expeditiously implement project oversight arrangements with approved funding recipients. However, no funding agreements were signed until March 2010 (over nine months (37 per cent) into the planned 24-month program life) and there have been some considerable delays in the negotiation and signing of agreements to govern the provision of funding for a number of approved projects<sup>271</sup>, with consequential delays in program expenditure. Given the program guidelines stipulated that a proponent must not begin project activities dependent on funding before a funding agreement had been signed, these delays also diminished the program's ability to provide timely economic stimulus through the construction of community infrastructure.

**5.53** Once the relevant agreements were in place, the department implemented effective procedures to monitor project commencement and

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<sup>271</sup> For two projects involving payments to a state government entity, this delay was the consequence of Infrastructure being required to enter into a National Partnership Agreement which, therefore, needed to be negotiated with all states and territories—the need for this approach to be adopted in order to provide funding for these projects was not identified until late in 2009. Bilateral Implementation Plans then needed to be negotiated and agreed with the relevant state for each of these projects before the project could commence. For a number of the remaining projects governed by a bilateral funding agreement, as well as the third project covered by the National Partnership Agreement, there was considerable delay with the preparation and signing of the agreement, largely due to the immature nature of the project at the time of funding approval or to other factors that prevented the details of the funded project from being settled for some time following funding approval.

progress as reported to it by the funding recipient. In addition, the funding arrangements adopted by the department reflected the importance of balancing:

- the economic stimulus imperative of making timely payments to project proponents to allow construction work to commence and proceed as soon as possible; with
- protecting the Commonwealth's interest. For example, initial payments ranged between two per cent and 50 per cent of the total grant, there were no instances where the initial payment was made solely because the funding agreement had been signed and further payments were not made until such time as project milestones had been met and earlier payments had been spent or were about to be spent.

**5.54** Whilst some projects have been delayed, many of the contract projects are proceeding broadly in accordance with the contracted timeframe and within the approved funding envelope. Where costs have increased, project proponents have been expected to source additional funding rather than obtain additional Australian Government funding, or reduce the project scope.

**5.55** However, overall, the IEP stream has not provided the planned level of stimulus in the timeframe that had been budgeted. In particular, only half of the approved projects were contracted to be completed by the original program end date of 30 June 2011 and, by this date, 38 per cent of the funds made available to fund projects remained uncontracted. There have also been significant rephasings such that expenditure under what was originally intended to be a targeted, two year stimulus program will now occur over at least three financial years. This situation largely reflects the delays that occurred in projects being identified for possible IEP stream funding, and the fact that those projects that were chosen did not involve significant construction activity in 2009–10.

**5.56** A further consequence of the delays in projects being initiated and subsequently approved for IEP stream funding was that it was not until some months into the planned two year program that significant expected employment outcomes were able to be identified. The capacity to generate timely economic stimulus and the expected employment outcomes was further affected by the subsequent delays that were experienced in finalising funding agreements for a number of approved projects. Consequently, it was not until mid-2010 that arrangements were in place to enable some approved projects to

commence in order that they could start generating the proposed employment outcomes. As a result, despite the April 2009 announcement of the IEP stream stating that the funding of construction of local infrastructure would create immediate jobs in communities affected by the global economic downturn, it was not until August 2010 that any project proponent reported to Infrastructure that an IEP stream project had created or retained any jobs. As none of the approved and contracted projects are located in a Priority Employment Area, the IEP stream has made no contribution to addressing employment challenges in those areas identified by DEEWR as those regions with labour markets which were likely to experience labour market disadvantage and deterioration as a result of the global recession.

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Ian McPhee

Auditor-General

Canberra ACT

22 September 2011

# Appendices





## Appendix 1: Agency responses to the audit

### Department of Infrastructure and Transport

The Department of Infrastructure and Transport notes the findings and recommendations made in the ANAO's audit of the Infrastructure Employment Projects program to improve the administration of grant programs.

The department accepts Recommendation No. 1 in relation to the administration of grant programs that do not involve an open call for applications. The department notes that, more generally, new programs being developed within the department are subject to implementation plans which will inform advice to the Minister about the approach to operational matters and improving clarity of program objectives and accountability requirements.

The department notes Recommendation No. 2 and, while broadly supportive of the recommended approach, recognises that this is a matter for the Department of Finance and Deregulation.

While the department notes the findings, it considers that the report does not adequately reflect that the IEP delivered long-term investment in community infrastructure which contributed to construction sector confidence in the areas projects were located.

It is also important to emphasise the context of the Global Financial Crisis in which the IEP program was developed. The government was dealing with a complex, dynamic and uncertain economic environment, which required a range of policy and program responses. There were particular challenges in developing responses which delivered stimulus across sectors and sustained confidence in the economy. The government was also seeking to advance a range of other objectives—including, in the case of the IEP, to deliver long term investment in community facilities.

The department notes the findings in the report in relation to stimulus and employment outcomes of the IEP, particularly the timing of job generation. While recognising this as an issue in delivery of the IEP, the fact that a number of proponents were entities with limited resources (such as smaller local councils) and in other cases development clearances have taken longer than initially expected, contributed to delays. For future programs, it will be important to better estimate the likely time for proposals to be progressed to an adequate standard and for various development-related clearances to be secured.

While the roll-out of projects has taken longer than envisaged, the department considers it likely that the announcement of government support for projects

under the IEP contributed to improved construction industry confidence in areas servicing the projects. This would particularly be the case for more complex, long-term infrastructure projects funded by the IEP, which would have impacts in sustaining confidence both during and beyond the other more immediate stimulus programs.

The ANAO report refers to the Cairns and Essendon projects and departmental advice that these projects may potentially need to be moved out of the IEP program, given risks that they will not be completed by 30 June 2012. The department reiterates that the Government has made funding commitments to these projects.

The department notes the findings in relation to the initiation and selection of projects, and the ANAO's view that the department should have identified potential additional candidate projects.<sup>272</sup> The department's approach in this regard was that projects would, in accordance with the Government's approach, be initiated and selected by government, consistent with the agreed program guidelines.

The department acknowledges that the ANAO has recognised that, once relevant agreements were in place, the department implemented effective procedures to monitor project commencement and progress reported by the funding recipient, and struck a balance between providing timely payments and protecting the Commonwealth's interests. The report also acknowledges that the department effectively managed risks to delivery of projects, such as unexpected cost increases, through the funding agreements it put in place with proponents.

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<sup>272</sup> As noted at paragraph 19 of this audit report, timely stimulus through the IEP stream was impeded by the considerable delays that occurred in developing a pool of candidate projects for funding consideration. The thrust of ANAO's discussion of the project initiation process (see Chapter 3 of this audit report and paragraphs 19 and 26 to 34 of the Summary) was to highlight the consequences of Infrastructure's interpretation of the statement in the program guidelines that candidate projects would be government initiated as meaning that it did not have a role in assisting the Government to identify potential candidates for funding consideration. Noting that the provision of advice to government is a core function of the Australian Public Service, these consequences included that:

- Infrastructure did not assist its Minister with the early identification and targeting of promising projects that could be expected to deliver timely and effective economic stimulus, as well as providing long-term community benefits, or develop an implementation strategy for the IEP stream; and
- opportunities were not taken to target funding at promising projects that had unsuccessfully applied to other oversubscribed stimulus programs (despite such an approach being envisaged during the design of the program) or to actively involve the Local Employment Coordinators (LECs) in the identification of projects located in Priority Employment Areas that may have been suitable for consideration for IEP stream funding (notwithstanding that the program guidelines had explicitly provided for LECs to play a role in identifying candidate projects for IEP stream funding).

The department has continued to improve its processes, with findings from earlier audits contributing to this. This has fed into the way existing projects have been managed. In particular, work is being undertaken across the department in improving program development and delivery, including through a Program Manager's Toolkit and the development of internal processes such as the Review Ready Workshops. The department considers there are some useful lessons from the audit of the IEP program for future program design.

## Department of Education, Employment and Workplace Relations

The Jobs Fund initiative was one of the central elements of the Australian Government's strategy to combat the impact of the global economic downturn on local Australian communities. The Department of Education, Employment and Workplace Relations (DEEWR) implemented the Jobs Fund initiative as a rapid response to the global economic crisis under extremely challenging circumstances.

The objective of the Jobs Fund was to support and create jobs and skill development through projects that built community infrastructure and social capital in local communities, with the aim of producing long-term improvements in communities affected by the economic downturn. There are many community success stories based on Jobs Fund projects.

The Jobs Fund initiative attracted a diverse and innovative range of projects from all regions of Australia. Through the funding of over 220 projects, administered by DEEWR, the Jobs Fund has substantially exceeded the expected employment outcomes while significantly contributing to community infrastructure and services across Australia. These Job Fund projects successfully supported over 9000 jobs, 2400 traineeships/apprenticeships and 5000 work experience places in regions and communities experiencing high levels of unemployment or vulnerability.<sup>273</sup>

It is important to acknowledge the extraordinary global circumstances which prevailed at the time of the program's conception and implementation and the need for rapid policy and program development and implementation. Jobs Fund Round One was implemented within a limited and challenging

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<sup>273</sup> The outcomes referred to by DEEWR relate solely to the general component of the Local Jobs stream and the Get Communities Working stream of the Jobs Fund, rather than the IEP stream of the Jobs Fund (which is the subject of this audit report) or the quarantined heritage and bike paths components of the Local Jobs stream (which are administered by agencies other than DEEWR). The administration of the two quarantined components and the non-quarantined component of the Local Jobs stream, including the outcomes that have been demonstrably achieved, will be examined in the separate performance audits currently underway of each component of the Local Jobs stream of the Jobs Fund.

timeframe in a collaborative manner between all involved agencies: DEEWR, the former Department of Environment, Water, Heritage and Arts (DEWHA) and Infrastructure. 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.

The ANAO acknowledges that the policy development for the Jobs Fund, where DEEWR was the lead agency, was undertaken effectively with the necessary urgency required for stimulus measures. ANAO also acknowledges the value of the analysis undertaken by DEEWR, as lead agency, to identify the overall objectives and focus of the Jobs Fund, including the identification of those communities most likely to be affected by the economic downturn.

Jobs Fund projects across Australia supported jobs at the time of the economic downturn and continue to provide long-term benefits to many disadvantaged communities.

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