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Performance Audit

Establishment, Implementation and Administration of the Quarantined Heritage Component of the Local Jobs Stream of the Jobs Fund

Department of Sustainability, Environment, Water, Population and Communities

Australian National Audit Office

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Canberra ACT
27 November 2012

Dear Mr President
Dear Madam Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Sustainability, Environment, Water, Population and Communities 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 Quarantined Heritage Component of the Local Jobs Stream of the Jobs Fund.*

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

Yours sincerely

Ian McPhee
Auditor-General

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

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Abbreviations and Glossary

ACNT	Australian Council of National Trusts
AHC	Australian Heritage Council
ANAO	Australian National Audit Office
CGGs	Commonwealth Grant Guidelines
Environment Minister	The then Minister for the Environment, Heritage and the Arts, who was responsible for the heritage component until September 2010 and made all decisions in relation to which projects would be funded. From September 2010, administration of approved heritage component projects became the responsibility of the Minister for Sustainability, Environment, Water, Population and Communities.
FAHS	Federation of Australian Historical Societies
DEEWR	Department of Education, Employment and Workplace Relations
DEWHA	The former Department of the Environment, Water, Heritage and the Arts. In September 2010, this department became the Department of Sustainability, Environment, Water, Population and Communities which retained responsibility for administering approved heritage component projects.
DSEWPaC	Department of Sustainability, Environment, Water, Population and Communities. Until September 2010, the quarantined heritage component was administered by the then DEWHA. Following the Administrative Arrangements Order of 14 September 2010, the department became DSEWPaC.
FMA Regulations	*Financial Management and Accountability Regulations 1997*

Heritage Minister's Working Group	Established by the then Environment Minister in early 2009, the Working Group comprised the then Chair and two other members of the AHC; the Chair of the ACNT; the then President of FAHS; an Australian International Council on Monuments and Sites member; a Professor of Economics; and tourism industry representative.
Regional Matrix	A Regional Matrix prepared by DEEWR in 2009 based on analysis of a range of labour market indicators in order to identify and provide assistance to those regions across Australia with labour markets which were likely to experience disadvantage and deterioration as a result of the global recession. The Matrix was used to identify the 20 Priority Employment Areas agreed by government as the areas with labour markets that were most likely to be affected by the global financial crisis, and provide comparative ratings of other areas around the country in terms of employment risk measures (with regions being rated as either strong, average, below average or poor in terms of employment vulnerability).
Responsible department	The department responsible for administering the heritage component, as constituted at relevant points in time (as the then DEWHA until September 2010 and as DSEWPaC from September 2010).
Responsible Minister	The Minister responsible for the administration of the heritage component at relevant points in time.
Review Panel	A panel comprising external heritage experts that participated in the assessment process for the small community projects category of the 2009–10 round of the heritage component and provided recommendations for that category to the responsible Minister.
SPBC	Strategic Priorities and Budget Committee of Cabinet

Summary and Recommendations

Summary

Introduction

1. As part of its response to the global financial crisis, on 17 March 2009 the Government agreed to the establishment of an integrated $650 million Jobs Fund, consisting of three streams. Reflecting commitments previously made to the Australian Greens in the context of securing passage (on 13 February 2009) of the $42 billion Nation Building and Jobs Plan legislation, $60 million of the Jobs Fund was quarantined under the Local Jobs stream for heritage-related projects. In line with the stimulus objectives of the Jobs Fund, the heritage component was to be completed by 30 June 2010.

2. Although the various streams of the Jobs Fund had their own particular focus, in each case the primary objective was to support and create jobs and employment opportunities in communities affected by the global recession and for disadvantaged job seekers through the funded projects. This was reflected in one initial set of guidelines encapsulating all three funding streams being published in April 2009. These 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[1], as well as meeting each of three gateway criteria:

- projects must be in areas experiencing high unemployment, a significant rise in unemployment or vulnerability;
- projects must be viable and ready to start; and
- heritage component funding would not extend past 30 June 2010.

3. For the heritage component, the employment objectives of the Jobs Fund were to be achieved through the delivery of projects that also provided positive heritage outcomes. To this end, the guidelines identified four issues (criteria) that would be considered in assessing heritage outcomes. The guidelines further provided for projects to be identified for consideration under the heritage component through two funding rounds as follows:

[1] 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.

- to enable $6 million to be expended by 30 June 2009, projects funded in 2008–09 would be identified, assessed and recommended by the department responsible for administering the heritage component. The guidelines further stated that this would apply to projects that were 'ready to start immediately on securing funding and meet the spirit of the Jobs Fund criteria'; and
- projects considered in a 2009–10 funding round were to be sourced in two ways—applications submitted through a common gateway process in response to the first Jobs Fund open call for proposals; and targeted approaches to relevant community organisations and state, territory and local governments. Under the guidelines, candidate projects identified in 2009–10 through both the common Jobs Fund application process and a targeted approach to heritage stakeholders were still required to meet the gateway criteria and target areas set out in the guidelines in order to be considered for funding.

Administration of the heritage component

4. Administration of the Jobs Fund was shared across agencies. The Department of Education, Employment and Workplace Relations (DEEWR) was the lead agency and central point for the submission of applications, and also administered some of the funding. For the majority of the life of the program, administration of the quarantined heritage component was the responsibility of the then Department of the Environment, Water, Heritage and the Arts. In September 2010, that department became the Department of Sustainability, Environment, Water, Population and Communities (DSEWPaC). Between April and December 2009, the then Minister for the Environment, Heritage and the Arts (Environment Minister) made all decisions in relation to which projects would be funded under the heritage component.[2]

[2] Throughout this report, the department responsible for administering the heritage component at the relevant point in time is referred to as the 'responsible department' or 'the department'; and the Minister responsible for the heritage component is referred to as the then Environment Minister, 'the responsible Minister' or 'the Minister'.

Audit objective, criteria and scope

5. The objective of the audit was to assess the efficiency[3] and effectiveness of the establishment, implementation and administration of the heritage component of the Local Jobs stream of the Jobs Fund, with a particular focus on the establishment of program objectives and the extent to which approved grants have demonstrably contributed to the cost-effective achievement of those objectives.

6. The audit examined the program against relevant policy and legislative requirements for the expenditure of public money and the enhanced grants administration framework progressively introduced from December 2007, culminating in the issuing in July 2009 of the *Commonwealth Grant Guidelines* (CGGs).[4]

Overall conclusion

7. The quarantining of $60 million of the Jobs Fund for heritage-related projects represented a substantial (and unexpected) program for this area of government, and was seen by the responsible department as an opportunity to address a funding backlog for a range of heritage assets. To this end, an integral element of the department's implementation approach involved drawing on external heritage expertise and stakeholders to identify and assess candidate projects.

8. At the conclusion of the two funding rounds, 191 projects were contracted to provide positive heritage outcomes in relation to a range of National Heritage-listed places; historic properties managed by the National Trust; heritage places of local, state or national significance; and natural heritage projects focussed on places listed in, or being assessed for inclusion in, the World Heritage List. The $58.2 million in contracted funding represented a significant Australian Government investment in these heritage assets.

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[3] As an economic stimulus program, efficiency was assessed with particular attention to whether the selection and funding agreement processes were undertaken in a timely manner. This emphasis was consistent with the criterion adopted by the Government for the design of the stimulus packages established in response to the global financial crisis (see further at paragraph 6.1).

[4] Revised Finance Minister's Instructions for the administration of grants issued in January 2009 applied to the design and establishment of the Jobs Fund, and to the approval of projects under the 2008–09 round of the heritage component. The approval of projects under the 2009–10 round occurred after 1 July 2009, the date that the CGGs and associated legislative and policy framework took effect.

9. While delivering positive heritage benefits, the responsible department's implementation of this component of the Local Jobs stream of the Jobs Fund had insufficient regard to the Government's policy objective of giving priority to employment outcomes and did not meet appropriate standards of governance for a grant program of this nature.

10. Although achieving heritage outcomes was an important aspect of the program objective, the primary purpose of the Jobs Fund, as reflected in the program guidelines approved by the Government, was to fund projects that would support and create jobs and employment opportunities in areas experiencing high unemployment or significant rises in unemployment or vulnerability. However:

- the department focused on the selection of projects that would achieve positive heritage outcomes with considerably less attention being given to whether candidate proposals would provide desirable employment outcomes in the areas of identified greatest need. The result was that projects that did not demonstrably meet the unemployment gateway criterion were nevertheless recommended and approved for funding. Such an approach is not in accordance with the grants administration framework (which requires decision-makers to be satisfied that approved grants are consistent with the program guidelines and other relevant policies)[5];
- while a sound approach was planned for obtaining and analysing relevant data in order to assess the extent to which the program generated employment through the contracted projects, the responsible department did not follow-through on its planned approach. As a result, there is no reliable data available on actual employment outcomes achieved through heritage component projects; and

[5] The guidelines had clearly targeted all components of the Jobs Fund to supporting and creating jobs in areas experiencing high unemployment or significant rises in unemployment or vulnerability. For the heritage component, consideration of the extent to which projects would provide positive heritage outcomes was to occur after a project had been assessed as meeting the overarching gateway criteria (and at least one of the four target areas) and, therefore, eligible for funding consideration. However, the responsible department did not exclude from further consideration projects that had not been demonstrably assessed as meeting the Jobs Fund threshold criteria. By way of comparison, projects that were assessed as not providing good heritage outcomes were excluded such that, in many cases, they were not assessed in terms of their contribution to the employment stimulus aspect of the program's objectives.

- delays with contracted projects commencing and progressing were masked by payments being made in advance of need, due to the department seeking to pay as much of the program funds as it could before the originally budgeted program end-date of 30 June 2010. The Jobs Fund gateway criteria had required that funding not be awarded to projects that were not ready to start and/or could not be completed by 30 June 2010.

11. In respect to the department's focus on heritage outcomes, prior to the decision to establish the Jobs Fund, the responsible department had obtained the then Environment Minister's agreement to arrangements for implementing the quarantined heritage funding as a stand-alone heritage-based program. Throughout the subsequent inter-departmental process of developing the common Jobs Fund program guidelines, the responsible department indicated a preference that the heritage component not be implemented through the application process being developed for use across the Jobs Fund, and the associated stimulus-focussed gateway criteria. This reflected the department's view that good heritage projects did not necessarily exist primarily in areas of high unemployment. However, the Government decision to include the heritage funding within the integrated Jobs Fund, and to give primacy in the program objective and threshold funding criteria to achieving timely and targeted employment outcomes, did not result in the responsible department ensuring that its approach to implementing the program faithfully reflected the decisions that Ministers collectively had taken. This represented a failure in the department's program governance.

12. More broadly, while the heritage component of the Jobs Fund was implemented in a timely manner that reflected the budgetary timeframe established for the program as part of the Government's package of stimulus measures[6], there were a number of significant shortcomings evident in the responsible department's implementation and administration of the program. This, in part, reflected that the relevant area of the department had limited experience in the design and implementation of grant selection processes, particularly of this magnitude. It also means that the department is unable to

[6] This was particularly the case in relation to the selection of 2008–09 projects (this process was completed within one month of the program guidelines being published). In addition, once funding decisions were made, the responsible department expeditiously developed and signed funding agreements for approved projects across both funding rounds.

demonstrate that each of the projects funded through the two funding rounds were both eligible and the most meritorious in terms of the program guidelines and published selection criteria (including those relating to assessing projects' heritage outcomes). In particular:

- effective governance arrangements were not developed and applied in respect to the role played by external parties and advisory panels in identifying and/or assessing candidate projects. Of note was that there was a general lack of documentation held by the responsible department concerning the processes by which candidate proposals were identified through external parties (particularly for the 2008–09 funding round), and of relevant departmental and advisory panel deliberations leading to shortlisting decisions and funding recommendations under each round. In addition, not all candidate projects were referred to the relevant advisory panel for advice, including projects that were nevertheless ultimately proposed to the Minister;
- assessment methodologies, including rating scales, were not developed in line with the published program guidelines, and were not in any event consistently applied. Further, the rating scales that were used provided little differentiation in terms of the relative merits of candidate projects; and
- clear funding recommendations (identifying which projects should be awarded funding) were included in the two briefings provided to the Minister for the 2008–09 round. This was not the case in relation to four of the five briefings provided in respect to the 2009–10 round. The department also did not effectively support its Minister to satisfy the obligation on decision-makers to record the basis for grant approvals. Key factors in this latter situation included the lack of documented assessments for each candidate project against the gateway and heritage criteria. The Minister was also not provided with advice in respect to the assessed relative merits of competing projects in relation to either the published gateway and heritage criteria or projects' respective overall value for money.

13. Earlier in 2012, ANAO completed a cross-portfolio audit of the administration of the various grant reporting obligations. That report made three recommendations aimed at enhancing the quality of advice provided to Ministers when they are the decision-makers for grant programs, and

compliance with the associated reporting obligations.[7] As evidenced by the findings of this audit of the administration of the heritage component, those recommendations are particularly relevant to DSEWPaC. Having regard to earlier advice from DSEWPaC about steps it has taken to improve its grants administration[8], ANAO has also made two recommendations concerning DSEWPaC's:

- use of advisory panels and/or peak bodies to identify and/or assess candidates for funding under future grant programs; and
- assessment of applications to future competitive, merit-based grant programs.

14. A recurring theme in ANAO's audits of grants administration is the importance of agencies (and Ministers) implementing programs in a manner which accords with government policy decisions and published program guidelines, and treats all applicants equitably—the community reasonably expects this. There was ample guidance and experience available for agencies to draw on to guide the design and implementation of grant programs to avoid the numerous shortcomings of the kind highlighted by this audit. In particular, it is important that agencies charged with responsibility for administering programs, including programs required to be implemented expeditiously, invest sufficiently in their governance arrangements and processes to achieve sound outcomes that are consistent with government policies and other requirements.

Key findings by Chapter

Advisory panels and peak bodies (Chapter 2)

15. Reflecting the responsible department's clear focus on maximising the heritage outcomes achieved through this one-off funding allocation, an integral

[7] See further in ANAO Audit Report No.21 2011–12, *Administration of Grant Reporting Obligations*, Canberra, 24 January 2012.

[8] In the context of a related audit of the development and approval of grant program guidelines tabled in May 2012, DSEWPaC commented that: 'DSEWPaC has a growing maturity in the development and evaluation of grant programs and since the audit's reporting period has implemented a new and robust grants administration framework and dedicated resources to assist with this important activity. In June 2011, DSEWPaC implemented a framework which comprised comprehensive administrative tools for staff in order to provide policy and legislative guidance and better practice on how granting activities should be properly developed and managed.'

element of the implementation approach adopted was to draw on external heritage expertise and stakeholders. This was also seen by the department as assisting to efficiently identify the 'shovel ready' projects necessary for the program to be implemented within the required timeframes.

16. This focus on engaging external expertise and stakeholders in the selection process was reflected in the original implementation arrangements approved by the responsible Minister in March 2009. However, the program guidelines published in April 2009, following the Government's decision that the quarantined heritage funding would be delivered through the Jobs Fund, identified a more limited involvement by external organisations than originally envisaged by the department in advising its Minister.

17. Nevertheless, the implementation of both rounds of the heritage component continued to reflect, in large part, the original arrangements rather than those ultimately approved by government and reflected in the published program guidelines. In addition, the approach taken to engaging external parties to participate in the project identification and assessment process could have been improved, particularly in relation to clarity about the role that was to be performed and documenting the subsequent implementation of that role. Further, although there is evidence of awareness within the department of the need to address potential or declared conflicts of interest, no management policies or procedures were developed or implemented in that respect.

Selection of projects in 2008–09 (Chapter 3)

18. In its implementation of the 2008–09 round of the heritage component, the department was focused on meeting the requirement to spend $6 million of program funding by 30 June 2009. This goal was achieved, with all recommendations being provided to the responsible Minister and funding decisions made by mid-May 2009.

19. The 30 June 2009 deadline ultimately identified for expending an initial $6 million was less than five months after the Government's 12 February 2009 agreement to provide the quarantined funding, and just over two months after the Jobs Fund guidelines were finalised. In such circumstances, it is important that agencies carefully consider how project selection processes can be expedited, while ensuring the parameters set down in the guidelines are implemented in a manner that supports both procedural consistency and cost-effective administration.

20. In this context, although proposals for consideration in 2008–09 were sought through a two-stage targeted invitation process, rather than an open call for submissions, it remained a competitive process. However, there were significant shortcomings in the approach taken to implementing the 2008–09 round that were inconsistent with sound practice for competitive grant programs. In particular:

- the assessment and selection methodology adopted was not consistent in some important respects with the published program guidelines but, rather, reflected arrangements developed by the department prior to the Government deciding that the heritage funding would be administered as part of an integrated Jobs Fund;
- there is a general lack of documentation (and therefore accountability) concerning the processes by which candidate proposals were identified;
- the process for shortlisting projects for formal consideration was not established in advance, and the department did not record an assessment of each candidate project against relevant criteria;
- the assessment of the formal proposals submitted in respect to shortlisted projects did not enable the department to inform its Minister as to the relative merits of each project in relation to the published program guidelines, or the value for money these projects offered in terms of their expected employment benefits; and
- although including a clear recommendation as to which projects should be awarded funding, the written advice provided to the Minister as the decision-maker did not outline his obligations under the financial framework when approving grants, and similarly did not clearly outline the criteria against which each project had been assessed or the results of such an assessment.

Assessment of applications for funding in 2009–10 (Chapter 4)

21. The conduct of a competitive grant selection process for the funding available under the quarantined heritage component in 2009–10 presented a number of significant challenges to the department. In particular:

- the relevant area of the department had limited experience in the design and implementation of grant selection processes, particularly of this magnitude; and

- given the economic stimulus nature of the program, the timeframe available to obtain and assess candidate proposals was short.

22. These circumstances contributed to various anomalies and inconsistencies arising in the processes by which candidate proposals were identified, with some applications being denied the opportunity to compete for the available funding. These circumstances also contributed to shortcomings in the assessment of competing candidates. In particular:

- the documented assessment methodology was not consistent with the published guidelines in that it did not appropriately differentiate between the nature of the threshold Jobs Fund eligibility criteria and the heritage assessment criteria;
- the rating scales that were to be applied were not clearly established;
- documented guidance for assessors in completing the assessment templates and assigning ratings was also not developed, with considerable inconsistency being evident in the completed assessments. In particular, for a significant proportion of projects, there was no documented assessment against the individual published heritage assessment criteria and/or the Jobs Fund gateway criteria and target areas;
- a methodology for determining overall ratings against each group of criteria (that is, the Jobs Fund eligibility criteria and the heritage assessment criteria respectively), and as an overall combined assessment was not established; and
- the approach taken to documenting assessments against both sets of criteria became increasingly short-hand and opaque over the course of the assessment process.

23. Of particular note in this respect was that projects that had not been assessed as demonstrably meeting the Jobs Fund eligibility criteria were not excluded from funding consideration. As a result, a number of such projects were recommended and approved for funding. The assessment approach adopted by the department allowed priority to be given to heritage considerations over employment considerations. However, such an approach was not consistent with the Jobs Fund guidelines which required that funding only be awarded where the mandatory gateway criteria had been met, and is not in accordance with the grants administration framework (which requires

decision-makers to be satisfied that approved grants are consistent with the program guidelines and other relevant policies).

Advice to decision-maker and funding decisions for 2009–10 (Chapter 5)

24. For the heritage component, the employment objectives of the Jobs Fund were to be achieved through the delivery of projects that also provided positive heritage outcomes. Accordingly, identifying the overall relative merit of each competing project required the department to bring together the outcome of the assessment against the published Jobs Fund threshold criteria and heritage assessment criteria; the views and perspectives of the various expert panels on heritage considerations; and consideration of whether the expected employment outcomes represented value for money.

25. The approach adopted by the department went some way towards addressing these various considerations. Specifically, the outcomes of the gateway and heritage assessments were combined to provide an overall rating for each project, but the rating scale used provided little differentiation in terms of the relative merits of the 325 projects considered capable of being funded. Projects were then, more often than not, considered by the relevant heritage expert panel/s, for formulation of funding recommendations. As a result of the process followed, heritage considerations became the predominant factor in determining whether a project would be recommended to the responsible Minister for approval. In addition, the department did not establish a consistent means of assessing the overall value for money provided by each project in terms of the program objectives.

26. The funding recommendations were, in most cases, provided to the responsible Minister by way of letters from the chair of the relevant expert panel and a covering departmental brief (which, in each case, agreed with the panel's recommendations). However, the benefits of bringing different perspectives and assessments to bear were offset by:

- different approaches being adopted to the formulation of funding recommendations in respect to each of the five funding categories, and procedures for re-allocating funding between categories not being established; and
- departmental records not clearly outlining why certain projects were recommended for funding and others were not.

27. Between August and December 2009, the Minister was provided with a series of five briefings recommending projects for funding consideration. In providing the first tranche of projects, the department advised the Minister that all recommended projects had met the Jobs Fund gateway and heritage criteria. However, this advice was either not supported by, or was inconsistent with, the documented assessment process under which an assessment against each criterion was not recorded for many projects. The subsequent four briefs providing projects for the Minister's consideration did not address whether the recommended projects had met the published criteria, and did not advise the Minister of the assessment criteria that had been applied. In none of the briefs did the department advise the Minister as to how each project had been assessed against each of the published selection criteria, individually or in comparison to other projects. Nor was the Minister advised as to the overall value for money offered by each competing project in terms of expected employment and heritage benefits.

28. Over the course of 2009–10, the responsible Minister approved 162 of the 181 projects[9] proposed in the various briefing packages provided by his department (of which 158 were contracted by the department). In this context, there were a number of aspects of the department's briefing practices that were not consistent with requirements introduced by the Government with effect from 1 July 2009 (through the promulgation of the CGGs and amendment of the FMA Regulations). Of particular note was that, for four of the briefings, the responsible Minister was not provided with a clear recommendation that identified those projects the department considered should be awarded funding based on an assessment of their relative merits in terms of the published criteria, and those that it recommended be rejected. Reflecting this situation, there were no instances where the responsible Minister was required to report to the Finance Minister that he had approved funding for a project his department had recommended be rejected.

29. Against this background, the briefing approach taken did not appropriately support the Minister's capacity to meet the obligation to record the basis for grant approvals in the context of a competitive grant program.

[9] The value of the grants proposed in relation to these 181 projects totalled $58.32 million, compared to the $45.54 million available in 2009–10, of which the Minister approved 162 projects for amounts totalling $45.76 million and the department contracted 158 projects for amounts totalling $45.47 million (as originally contracted), including one project that was contracted for an amount that considerably exceeded the amount identified in the Minister's written record of approval (see footnote 149).

This was compounded by the departmental briefs not advising the Minister on the requirements that arise when undertaking the role of decision-maker for a grant program.

30. The department excluded from further consideration those recommended projects that had not been approved within particular packages proposed to the Minister, but without obtaining or documenting advice from the Minister as to whether each such project was considered by the Minister to be unsuitable for further consideration should additional funds become available (as occurred on two occasions in relation to the large community projects category). This approach contributed to the lack of transparency regarding the basis on which certain projects had been selected for funding and others had not.

Delivery of financial stimulus (Chapter 6)

31. Once project approvals for each round had been finalised, the department worked expeditiously to develop and sign funding agreements, with very few delays occurring in agreements being finalised. The department's performance in this regard was a significant improvement over that achieved under the other quarantined component of the Local Jobs stream, also budgeted to be completed by June 2010.

32. In addition, by the originally budgeted program end-date of 30 June 2010 all but $3 million (five per cent) of contracted funding had been paid to proponents. This situation indicated that the program had largely provided the desired level of stimulus in the planned timeframe. However, this was not, in fact, the case. Rather, the high level of program expenditure by June 2010 was achieved by signing funding agreements with unrealistic project completion dates and then making project payments in advance of need.[10]

33. In this respect, there were significant delays in the delivery of projects, as is demonstrated by nearly half of the 191 contracted projects not being completed by the date originally specified in the relevant funding agreement. This included 75 projects (39 per cent) that were not completed by June 2010. By 30 June 2010, the department had paid a total of $32.7 million (92 per cent)

[10] For example, the funding agreements executed in relation to 127 projects (66 per cent) provided that the proponents would be entitled to receive between 80 per cent and 95 per cent of grant funds before physical work was required to have commenced on the relevant infrastructure project.

of approved funding for those 75 projects, but the majority took an extended period to subsequently reach completion (or in one case termination without ever commencing). Final grant payments were not made until June 2011.

Employment and heritage outcomes (Chapter 7)

34. The department adopted a strong early focus on establishing an evaluation and reporting framework for the heritage component. The framework identified the program objectives against which performance would be evaluated and associated performance indicators.

Employment outcomes

35. The department's evaluation and reporting framework recognised that the fundamental purpose of the Jobs Fund was to create and retain employment. In this context, whilst recognising that projects' anticipated employment outcomes should be treated with some caution, the employment generated by funded projects was expected to be significant. However:

- shortcomings existed in the assessment of candidates for funding and, as a result, program funding was not focused on those areas identified as having the greatest employment stimulus needs[11];
- notwithstanding the importance of Jobs Fund projects generating employment, funding agreements did not identify achievement of the expected employment outcomes that had informed the decision to award funding as a project milestone or required deliverable; and
- the department did not follow-through on its planned approaches to obtaining and analysing relevant data to assess the extent to which the program generated employment through funded projects.

36. In these circumstances, there is no reliable data available on actual employment outcomes achieved through heritage component projects.

Heritage outcomes

37. The Heritage Minister's Working Group had agreed that there was a need to demonstrate the 'rate of return' on investments made in heritage, including both the economic and social returns to the community. Reflecting

[11] As a result, 43 per cent of the reported employment stimulus occurred in areas with strong or average labour markets rather than defined Priority Employment Areas or other areas with below average or poor labour markets.

this, the stated objectives of the evaluation and reporting framework developed for the heritage component were to provide a clear set of indicators of the economic and social contribution that had been made by the investment in heritage places through the Jobs Fund.

38. In that context, the department took a number of steps to evaluate in qualitative terms the achieved heritage outcomes. Of particular note was an external evaluation completed in August 2011. Overall, the evaluation concluded that the program was successful in achieving its heritage objectives and that continuation of a diverse heritage program would help to contribute to government heritage goals, and maintain the level of community engagement and interest that had been generated.

39. More specifically, based on the available data, the evaluation concluded that the 33 projects examined had been successful in meeting most of the heritage outcomes detailed in the program guidelines. The evaluation also concluded that it was too early to gauge the extent of the desired social and economic impacts (as noted at paragraph 37, the Heritage Minister's Working Group had agreed this would be an important element in demonstrating the 'rate of return' on investments made in heritage). The evaluation report included suggestions to enable better measurement of the heritage impacts of any future funded projects, and made a number of recommendations relating to the framing and conduct of any future heritage grant programs. In September 2012, DSEWPaC advised ANAO that the department had accepted the recommendations made in the evaluation report and incorporated them where appropriate in subsequent related programs.

40. While the achieved heritage outcomes are to be acknowledged, the range of shortcomings in the responsible department's application and assessment processes identified in Chapters 2, 3, 4 and 5 of this ANAO report mean that the documented selection process does not demonstrate that the most meritorious projects in terms of the published heritage selection criteria were funded through either the 2008–09 round or the 2009–10 round.

Summary of agency response to the proposed audit report

41. Having regard for the various administrative arrangements that have applied over time in relation to the heritage component and the Jobs Fund more broadly, the proposed audit report issued under section 19 of the *Auditor-General Act 1997* was provided to DSEWPaC, DEEWR, the Minister

who was responsible for all funding decisions taken in respect to the heritage component and the external heritage bodies and stakeholders that were involved in the project identification and assessment processes. Whilst no formal response to the draft report was received from the relevant Minister, DEEWR and external bodies, DSEWPaC provided the following summary response with the full response included at Appendix 1.

> The department (DSEWPaC) agrees with the two audit recommendations and appreciates the opportunity to provide comment. DSEWPaC recognises the need to include relevant details in program guidelines, and ensure a rigorous approach to assessment parameters.
>
> The key findings of the report largely relate to processes and events in the period from 2008 to mid 2010. Indeed, in 2010 the department itself identified the need to substantially strengthen many of its internal processes and governance arrangements. Since then, the department has considerably improved the development, and evaluation of its grant programs with the implementation of a new and more robust grants administration framework with dedicated resources.
>
> In June 2011 DSEWPaC implemented a Grants Administration Framework, which comprises comprehensive administrative tools for staff to provide policy and legislative guidance and better practices on how granting activities should be properly developed and managed. The department's Grant Management System (GMS) supports staff in the delivery of grant programs by including prescriptive processes around the application process, eligibility and merit assessment of grant applications.
>
> To support improvements in its business processes, the department has upgraded its project management framework to contemporary industry standards, and has established contemporary risk management framework and reviews. The Portfolio Project Management Office was formally established in May 2012 to provide support, Project Governance guidelines, quality assurance and reporting services, training and mentoring services.

Recommendations

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

Recommendation No. 1

Paragraph 2.37

To promote adherence to the key principles for grants administration outlined in the Commonwealth Grant Guidelines in situations where advisory panels and/or peak bodies play a role in identifying and/or assessing candidates for funding under future grant programs, ANAO recommends that the Department of Sustainability, Environment, Water, Population and Communities:

(a) document in the published program guidelines the role such bodies are expected to play in the implementation of the program;

(b) establish, prior to the commencement of the selection process, the processes to be undertaken by such bodies in formulating their recommendations, including how they will be based on an assessment of eligible candidates against the published selection criteria; and

(c) develop policies and procedures for the appropriate documentation of deliberations by such bodies and the effective management of any conflicts of interest.

DSEWPaC response: Agreed.

Recommendation No. 2

Paragraph 4.73

To improve its assessment of applications for future competitive, merit-based grant programs, ANAO recommends that the Department of Sustainability, Environment, Water, Population and Communities:

(a) document and implement assessment methodologies that are consistent with the parameters set out in the approved program guidelines; and

(b) adopt, and consistently apply, rating scales that provide an efficient and effective means of differentiating between eligible applications in terms of their overall claims against the published assessment criteria.

DSEWPaC response: Agreed.

Audit Findings

1. Introduction

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

Background

1.1 As part of the Australian Government's response to the global financial crisis, on 17 March 2009 the Strategic Priorities and Budget Committee (SPBC) of Cabinet agreed to the establishment of an integrated $650 million Jobs Fund. The Jobs Fund comprised three streams, including a $300 million Local Jobs stream. This latter stream related to the delivery of commitments previously made to the Australian Greens in the context of securing passage (on 13 February 2009) of the $42 billion Nation Building and Jobs Plan legislation. Reflecting specific elements of those commitments, $100 million of that funding was to be quarantined for specific types of projects—$60 million for heritage-related projects and $40 million for the construction of bike paths.

1.2 The SPBC further agreed that the Jobs Fund would operate for two years only (from 1 July 2009 to 30 June 2011) and would be targeted to areas of high unemployment, as well as to projects that were ready to start immediately. The Jobs Fund was also to give priority to: supporting and creating jobs; building skills for the future; building sustainable infrastructure for the future; and new and existing social enterprises. The Jobs Fund was announced on 5 April 2009 as part of a Jobs and Training Compact with Australians affected by the global recession. The Compact promised training, support and local initiatives to help affected persons to get back to work and was announced as representing the next step in the Government's response to the global recession. The Compact had three elements, including a compact with local communities, of which the Jobs Fund formed a key part.

Program objectives and guidelines

1.3 Although the three streams of the Jobs Fund had their own particular focus, in each case the primary objective was to support and create jobs and employment opportunities in communities affected by the global recession and for disadvantaged job seekers through the funded projects. This was reflected in one initial set of guidelines encapsulating all three funding streams being published in April 2009, which identified the common program objective:

> The Jobs Fund will support and create jobs and skill development through projects that build community infrastructure and social capital in local communities...The aim of the Jobs Fund is to produce long-term improvements in communities affected by the economic downturn.

1.4 The targeted stimulus objective of the Jobs Fund was reflected in the guidelines stipulating that, to be considered for funding under any stream, a project needed to meet a common set of threshold requirements. Specifically, a project must address at least one of four target areas[12], and meet each of three gateway criteria which had an employment stimulus focus (in terms of both location and timeframe) and required that:

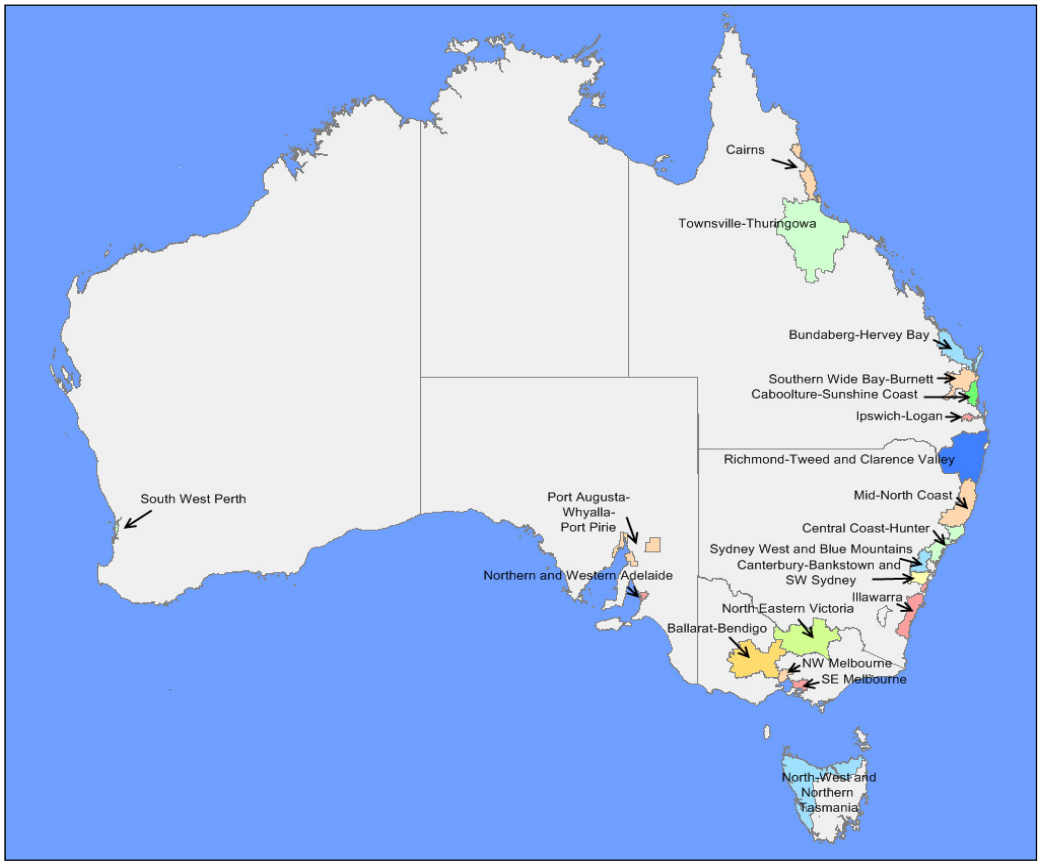
- projects must be in areas experiencing high unemployment, a significant rise in unemployment or vulnerability;
- projects must be viable and ready to start; and
- funding would not extend past 2010–11. Projects were expected to be self-sufficient and/or not require Australian Government funding beyond 30 June 2011. The guidelines outlined elsewhere that funding under the two quarantined components of the Local Jobs stream, including the heritage component, was not to extend past 30 June 2010.

1.5 In relation to the targeted nature of the stimulus objective, the Jobs Fund was one of two major initiatives under the 'local communities' element of the Jobs and Training Compact. The other major initiative was the engagement of Local Employment Coordinators in 20 Priority Employment Areas (see Figure 1.1).

[12] 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.

Figure 1.1

Location of Priority Employment Areas



Source: Department of Education, Employment and Workplace Relations.

1.6 The Priority Employment Areas were identified based on analysis undertaken by the Department of Education, Employment and Workplace Relations (DEEWR) of a range of labour market indicators in order to identify and provide assistance to those regions across Australia with labour markets likely to experience disadvantage and deterioration as a result of the global recession. This Regional Matrix methodology also provided comparative ratings of regions around the country in terms of employment risk measures (with regions being rated as strong, average, below average or poor). It was provided to other administering departments by DEEWR as one of the tools they could use to identify areas of employment disadvantage in assessing Jobs Fund applications.

1.7 For the heritage component, the employment objectives of the Jobs Fund were to be achieved through the delivery of projects that also provided positive heritage outcomes, with the guidelines stating that:

> For heritage-related project proposals, in addition to demonstrating how the project delivers employment and economic benefits that are supported by local communities, proponents will also need to demonstrate that the project will deliver positive heritage outcomes.

1.8 To this end, the guidelines identified four issues (criteria) that would be considered in assessing heritage outcomes.

Administering agencies

1.9 Administration of the Jobs Fund was shared across agencies. DEEWR was the lead agency and central point for the submission of applications, and was also responsible for administering the Get Communities Working stream and the general component of the Local Jobs stream.

1.10 The program guidelines outlined that the quarantined heritage component would be principally administered within the then Environment, Heritage and the Arts portfolio. The then Department of the Environment, Water, Heritage and the Arts (DEWHA) was responsible for assessing projects and making recommendations to the then Minister for the Environment, Heritage and the Arts (Environment Minister). Between April and December 2009, the Minister made all decisions in relation to which projects would be funded under the heritage component.[13] In this context, the then DEWHA was responsible for administering the majority of the program, incorporating the period February 2009 to September 2010. In September 2010, the then DEWHA became the Department of Sustainability, Environment, Water, Population and Communities (DSEWPaC), with that department retaining responsibility for administering approved heritage component projects. The responsible Minister became the Minister for Sustainability, Environment, Water, Population and Communities.

1.11 For clarity of reference, throughout this report the administering agency for the heritage component at the relevant point in time is referred to as 'the responsible department' or 'the department'; and the Minister responsible

[13] The responsible Minister at the time all funding decisions were taken was The Hon Peter Garrett AM MP.

for the heritage component is referred to as the then Environment Minister, 'the responsible Minister' or 'the Minister'.

Implementation of the heritage component

1.12 The announcement on 12 February 2009 of a dedicated $60 million funding pool represented a substantial (and unexpected) program for this area of government[14], and was seen as an opportunity to address a funding backlog for a range of heritage assets. Equally, reflecting the stimulus context in which the commitment had been made, the then Environment Minister's Office had advised the responsible department that 'at the appropriate time we need to action urgently'.

1.13 The department subsequently sought to quickly implement the program following publication of the commitment. In particular, on 26 February 2009, the department sought the then Environment Minister's agreement to a split of the $60 million between categories of heritage activity (reflecting the terms of the agreement made with the Australian Greens), and to proposed selection criteria and administrative arrangements for the identification and assessment of proposals under each category.

Appropriation and funding arrangements

1.14 The responsible department initially proposed to spend $58.661 million on heritage projects over two years ($18.661 million in 2008–09 and $40 million in 2009–10), with $1.339 million allocated to departmental costs.[15] Subsequent discussions between the Offices of the then Prime Minister and then Environment Minister, and the Department of the Prime Minister and Cabinet initially resulted in an agreement that all funding would be allocated to 2009-10, but it was later decided that some funding would need to 'hit the ground' in 2008–09. As a result, a revised profile was identified involving $6 million of expenditure in 2008–09, and the remainder in 2009–10.

[14] For example, the State of the Environment 2011 report noted that: 'The Jobs Fund program is by far the largest public sector funding initiative for heritage during the SoE 2011 reporting period' (Independent report to the Australian Government Minister for Sustainability, Environment, Water, Population and Communities, Australian State of the Environment Committee, 2011, p. 760).

[15] Following announcement of the Jobs Fund, it was determined that departmental administration costs would be met from the total funding allocation of $60 million.

1.15 Funding of $60 million for the heritage component was provided through the May 2009 Budget, involving $58.261 million for grants ($6 million (10.3 per cent) to be expended by 30 June 2009 and $52.261 million in 2009–10) and $1.739 million (2.9 per cent) for departmental costs. The Jobs Fund guidelines provided that the heritage component would involve grants made under five funding categories (see Table 1.1).

Table 1.1

Heritage funding categories identified in Jobs Fund guidelines

Category	Available funding[1]	Maximum grant	Minimum grant
1. National Heritage-listed places.	$16 000 000	$2 000 000	$50 000
2. Historic properties managed by the National Trust.	$12 000 000	$2 000 000	$20 000
3. Community grants (large projects) for heritage places of local, state or national significance.	$11 400 000	$2 000 000	$100 000[2]
4. Community grants (small projects).	$10 000 000	$100 000[2]	$20 000
5. Natural heritage projects focused on places listed in, or being assessed for inclusion in, the World Heritage List.	$8 600 000	$2 000 000	$200 000
Total	$58 000 000[3]		

Notes:

1. Funding was re-allocated between categories during the project approval process.
2. During assessment, the maximum grant under the small community projects category was increased to $200 000.
3. The $58 million allocated across the five categories in the April 2009 guidelines was $261 000 less than the funding subsequently made available for grants in the May 2009 Budget.

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

Identifying candidate projects

1.16 An area in which the approach to be taken in relation to the heritage component differed to most other elements of the Jobs Fund related to the process for identifying candidate projects. Specifically, under the Local Jobs and Get Communities Working streams, candidate projects were to be generally identified through a 'gateway process' under which applications would be sought through an open call for submissions, and then referred to the most appropriate stream for assessment.

1.17 To facilitate expeditious program delivery, and manage expectations within the heritage community in relation to the number of projects that could expect to be funded, it was originally proposed that candidate projects for the

heritage funding commitment would be primarily identified through direct approaches to heritage peak groups and other stakeholders. In that context, the potential for a targeted stimulus program to be, at least to some extent, incompatible with a heritage-focussed program was identified by the responsible department at an early stage. In seeking to manage that issue, the selection criteria for which the responsible Minister's approval was obtained on 9 March 2009 included that priority would be given to heritage projects that provided jobs for local businesses and communities and opportunities for youth, but with the proviso that this was only to apply 'to the maximum extent consistent with the achievement of good heritage outcomes'.[16]

1.18 Following the Government's 17 March 2009 decision to establish an integrated Jobs Fund, the responsible department participated in inter-departmental discussions on the development of the program guidelines. Throughout that process, the department indicated a preference that the heritage component not be implemented through the common application process being developed for use across the Jobs Fund, and the associated stimulus-focussed gateway criteria. This reflected the department's view that good heritage projects did not necessarily exist primarily in areas of high unemployment.

1.19 Ultimately, the April 2009 Jobs Fund guidelines provided for projects to be identified for consideration under the heritage component as follows:

- to enable $6 million to be expended by 30 June 2009, heritage projects funded in 2008–09 would be identified, assessed and recommended by the responsible department.[17] The guidelines further stated that this would apply to projects that were 'ready to start immediately on securing funding and meet the spirit of the Jobs Fund criteria'; and
- projects considered in 2009–10 were to be sourced in two ways—applications submitted through the gateway process in response to the first Jobs Fund call for proposals; and targeted approaches to relevant community organisations and state, territory and local governments.

[16] Appendix 2 compares the selection criteria set out in the April 2009 Jobs Fund guidelines with the heritage criteria originally approved by the responsible Minister in March 2009, before the Government decided that the heritage funding would be part of an integrated Jobs Fund, with common criteria.

[17] In this respect, the department had initiated contact with stakeholder organisations shortly after the 12 February 2009 agreement between the Government and the Australian Greens, but prior to obtaining the responsible Minister's March 2009 approval of proposed implementation arrangements.

Under the guidelines, candidate heritage projects identified in 2009–10 through both the common Jobs Fund application process and a targeted approach to stakeholders were still required to meet the gateway criteria and target areas set out in the guidelines in order to be considered for funding.

Audit objective, scope and criteria

1.20 The objective of this audit was to assess the efficiency[18] and effectiveness of the establishment, implementation and administration of the heritage component of the Local Jobs stream of the Jobs Fund, with a particular focus on the establishment of program objectives and the extent to which approved grants have demonstrably contributed to the cost-effective achievement of those objectives.

1.21 The audit examined the program against relevant policy and legislative requirements for the expenditure of public money and the enhanced grants administration framework progressively introduced from December 2007, culminating in the issuing in July 2009 of the *Commonwealth Grant Guidelines* (CGGs). Particular emphasis was given to examining whether the heritage component 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;
- projects were identified, assessed and approved in accordance with the program guidelines, the *Financial Management and Accountability Regulations 1997* (FMA Regulations) and, as relevant[19], the CGGs; and
- appropriate oversight arrangements were established with funding recipients, and approved projects have been monitored and delivered in accordance with the terms and conditions of funding.

[18] As an economic stimulus program, efficiency was assessed with particular attention to whether the selection and funding agreement processes were undertaken in a timely manner. This emphasis was consistent with the criterion adopted by the Government for the design of the stimulus packages established in response to the global financial crisis (see further at paragraph 6.1).

[19] Revised Finance Minister's Instructions for the administration of grants issued in January 2009 applied to the design and establishment of the Jobs Fund, and to the approval of 33 projects under the heritage component between April and May 2009. The approval of projects under the 2009–10 round of the heritage component occurred after 1 July 2009, the date that the CGGs and associated legislative and policy framework took effect.

1.22 The focus of this report is the $60 million heritage component of the Local Jobs stream. A separate audit is currently being conducted of the non-quarantined component of the Local Jobs stream. Performance audits of the Infrastructure Employment Projects stream and the quarantined bike paths component of the Local Jobs stream were tabled in the Parliament in September 2011 and March 2012 respectively.[20] Given the various agencies involved in the administration of the Jobs Fund, the audit was undertaken under section 18 of the *Auditor-General Act 1997*. The audit was conducted in accordance with ANAO auditing standards at a cost to the ANAO of $281 500.

Report structure

1.23 The audit findings are reported in the following chapters.

Chapter	Chapter Overview
2. Advisory panels and peak bodies	Discusses the approach taken to the involvement of advisory panels and other external organisations in the project identification and selection processes.
3. Selection of projects in 2008–09	Examines the conduct of the 2008–09 funding round.
4. Assessment of applications for funding in 2009-10	Examines the identification and assessment of candidate projects for the 2009–10 funding round.
5. Advice to decision-maker and funding decisions for 2009–10	Examines the formulation and presentation of funding recommendations and funding decisions by the Ministerial decision-maker in 2009–10.
6. Delivery of financial stimulus	Examines project oversight arrangements, with a focus on the extent to which the program demonstrably delivered timely financial stimulus.
7. Employment and heritage outcomes	Analyses the extent to which the program demonstrably delivered employment benefits in the targeted regions, while also providing positive heritage outcomes.

[20] See ANAO Audit Report No.7 2011–12, *Establishment, Implementation and Administration of the Infrastructure Employment Projects Stream of the Jobs Fund,* Canberra, 22 September 2011; and ANAO Audit Report No.27 2011–12, *Establishment, Implementation and Administration of the Bike Paths Component of the Local Jobs Stream of the Jobs Fund*, Canberra, 20 March 2012.

2. Advisory panels and peak bodies

This chapter discusses the approach taken to involve advisory panels and other external organisations in the project identification and selection processes.

Introduction

2.1 It is relatively common for expert or advisory panels to be used to provide advice and/or recommendations to grant program decision-makers. Particularly where a program relates to an area of specialist expertise, such panels are able to bring specific knowledge, experience and judgement to bear in formulating, or assisting to formulate, funding recommendations.[21] In this context, as the CGGs highlight, granting activities should be underpinned by 'solid governance structures and clear lines of accountability'. Accordingly, it is important that the basis on which an advisory panel is to be involved in a selection process is clearly established, and that the panel's deliberations and recommendations are appropriately documented.

2.2 Reflecting the responsible department's[22] clear focus on maximising the heritage outcomes achieved through this one-off funding allocation, an integral element of the implementation approach adopted was to draw on external heritage expertise and stakeholders. This particularly related to the involvement of the Australian Heritage Council (AHC)[23], and the department drawing upon other specialised expertise through the:

- Australian Council of National Trusts (ACNT) and the Federation of Australian Historical Societies (FAHS), as peak bodies representing entities involved in activities targeted by particular heritage component funding categories (namely, state and territory National Trusts and historical societies as community project proponents); and

[21] Where the advice provided by a panel directly informs a decision about expenditure—for example, where the panel assesses applicants against particular criteria, and/or recommends supporting particular projects or distributing funds to particular applicants—panel members are taken to be officials of the relevant agency. This is because the provision of such advice is the performance of a 'financial task' within the meaning of FMA Regulation 3. Persons performing financial tasks are deemed (by operation of part 5 of the FMA Act and Regulations 4(1)(a), 4(2) and 5(1)(b)) to be officials of the relevant agency.

[22] The then DEWHA was the department responsible for administering this aspect of the program.

[23] The AHC is the Australian Government's independent expert advisory body on heritage matters. See further at www.environment.gov.au/heritage/ahc/about/index.html [accessed 29 March 2012].

- involvement of a Review Panel in the small community project assessment process, comprising members of the Heritage Minister's Working Group[24] (ACNT Chair and the then FAHS President) and other heritage experts, including from the National Library of Australia.

2.3 In this context, the ANAO examined the:

- involvement of peak bodies in identifying candidate projects for both the 2008–09 and 2009–10 heritage component funding rounds; and
- role played by peak bodies and advisory panels in the selection processes for both rounds.

2008–09 funding round

2.4 The Jobs Fund guidelines published in April 2009 stated that heritage projects funded in 2008–09 would be identified, assessed and recommended by the responsible department. In practice, a two stage approach was adopted for identifying candidate projects. This involved the compilation of an initial list of project concepts by the department, from which a shortlist of projects was generated for the submission of formal proposals. Those proposals were then subject to an assessment process, following which funding recommendations were made to the responsible Minister.

2.5 The guidelines did not identify a role in those processes for any party other than the department. However, this was not consistent with the processes that had already been undertaken in relation to identifying candidate projects[25], or with the role subsequently played by the AHC, in particular, in the assessment of proposals and provision of recommendations to the Minister for the 2008–09 round.

[24] Established by the then Environment Minister in early 2009, the Working Group comprised the then Chair and two other members of the AHC; the ANCT Chair; the then FAHS President; an Australian International Council on Monuments and Sites member; a Professor of Economics; and tourism industry representative. Departmental records indicate that members were appointed in a personal capacity.

[25] Specifically, as noted at footnote 17, the department had initiated contact with stakeholders in relation to identifying potential projects soon after the heritage funding was agreed by government, and this process continued throughout February and March 2009, leading to the finalisation of a shortlist on 17 April 2009.

Involvement of peak bodies in identifying candidate projects

2.6 The department obtained information relating to potential projects from state and territory government agencies and the managers of various National Heritage and World Heritage-listed places. The department also engaged peak heritage bodies to develop shortlists of projects from constituent members that could be targeted for funding in 2008–09. However, the published program guidelines did not outline that these peak bodies would perform an active role in the program's project identification and selection processes. In addition, significant aspects of those processes were inadequately documented.[26]

Nomination of National Trust projects

2.7 Arrangements for implementing the heritage funding provided to the responsible Minister on 26 February 2009 proposed that the ACNT would be asked to seek applications from the state and territory National Trusts and then submit a shortlist to the department (see Appendix 3). This process had already been initiated at that time, with the ACNT having provided the department with an indicative list of 52 National Trust projects covering each state and territory (apart from the Australian Capital Territory (ACT)) on 19 February 2009. Departmental records did not document a request for the ACNT to compile the list and, if so, the parameters that may have been advised by the department in relation to that process. The ACNT did not provide, and the department did not seek, any further advice in relation to the processes that had been undertaken in compiling the indicative list of projects.

2.8 On 8 April 2009[27], the ACNT provided the department with a revised list, titled 'Short list of "Shovel Ready" National Trust Projects', which it advised had been:

> submitted by member Trusts of the Australian Council of National Trusts as potential projects for immediate funding under any initial funding available

[26] A draft assessment guide for the heritage component provided to DEEWR by the responsible department on 21 May 2009 (three days after the 2008–09 round was finalised), stated that: 'For the $6 million of heritage funding to be expended in 2008–09, DEHWA has sought targeted applications from the ACNT, the state and territory heritage agencies, the FAHS and other key stakeholders.' There was no other documentation in relation to how that process was to have been (or had been) undertaken.

[27] This was after the 17 March 2009 decision to deliver the heritage funding as part of the Jobs Fund, but prior to the then Prime Minister's 16 April 2009 approval of the Jobs Fund guidelines.

prior to 30 June 2009. Full details, including extent of contributory funding, if any, and job creation implications will be available on request.

2.9 In this respect, in September 2012 DSEWPaC advised ANAO that: 'Potential project concepts were provided on the understanding that a funding opportunity *may* become available.'

2.10 Compared to the 19 February 2009 list, the 8 April 2009 shortlist:

- included five projects in the ACT, but these did not involve properties administered by the ACT National Trust[28];
- included projects that had not been in the previous list, and excluded some projects previously identified[29], and a number of other projects had been changed and/or reduced in scope (and funding request); and
- did not include a list of specific projects for Western Australia, but simply advised: 'Numerous projects throughout the state ranging from a few tens of thousands of dollars to million dollar plus projects'.

2.11 Again, there was no evidence of the department seeking any further advice in relation to the processes undertaken to compile the revised shortlist. There was also no record of guidance having been provided to the ACNT by the department, including in relation to the advice that should be provided to the state and territory entities regarding the nature of proposals being sought; the information that should be provided; or the timeframe within which projects were required to be nominated. This is not insignificant in terms of the transparency of the project selection process given that, of the 20 National Trust projects included in the subsequent formal proposal stage, 18 had been specifically identified in the ACNT's 8 April 2009 shortlist (with 16 (89 per cent) being approved in 2008–09).[30]

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[28] The department subsequently agreed to the ACT National Trust submitting a combined formal proposal to the 2008–09 round for works at three of those properties (all historic churches), which was approved and identified as having been funded under the category for National Trust-managed properties. By way of comparison, an application to the 2009–10 round seeking further funding for the same churches was allocated to compete under the large community projects category (this application was not successful).

[29] Of the 35 projects listed for states and territories other than Western Australia, 12 had not been included in the indicative list of project concepts provided to the department by the ACNT on 19 February 2009.

[30] These 18 projects comprised 21 proposals separately identified in the ACNT's shortlist, with some being combined in the shortlisting process. The remaining two National Trust projects included in the formal proposal stage (also both approved), related to the WA National Trust which, as noted at paragraph 2.9, declined to nominate specific projects for inclusion in the revised 8 April 2009 ACNT shortlist.

Nomination of historical society projects

2.12 The department similarly did not record a request to the FAHS (the peak body for historical societies) for assistance in seeking out potential projects from its constituent members, or any advice that may have been provided as to how that process should be undertaken**.** However, it is apparent from other documentation that the FAHS played a role in this regard.[31]

2.13 Ultimately, of the 146 projects from which the 2008–09 shortlist for the submission of formal proposals was selected, only four had been submitted via the FAHS.[32] Of those, one was shortlisted and subsequently approved for $110 000. As with the ACNT, the department did not seek to document or otherwise identify the nature of the FAHS' interactions with historical societies in this respect, or to confirm that all proposals submitted in response had been received prior to the shortlisting process being completed.[33]

Role of AHC in the formulation of 2008–09 recommendations

2.14 The implementation arrangements originally agreed by the responsible Minister in March 2009 (see Appendix 3) had provided that the AHC would be involved in the review of applications and/or formulation of shortlists for decision by the Minister for four of the five heritage categories. By way of

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[31] For example, on 22 March 2009 the then FAHS President advised the department that: 'Several people have offered to provide me with possible projects, but none have yet arrived. I have extended the deadline to close of business Wednesday [*25 March 2009*]—I hope that is OK. In my absence from [*23 March 2009*], I have asked that they be sent to [*the then FAHS Honorary Secretary]* who will do a bit of a cull and ordering and forward them to you.' In this respect, the implementation arrangements approved by the Minister on 9 March 2009 (see Appendix 3) provided for the FAHS to be involved in a committee formed to review small community grant applications, but did not identify any role for the FAHS in seeking proposals.

[32] In addition, the then FAHS President had forwarded to the department 'for information and possible inclusion' three projects he had received from the FAHS Vice-President. For two projects, internal departmental advice upon receipt was: 'I don't see these as part of the first tranche—they can come in [*through*] the [*2009–10*] public call'. However, both were then included in the list of project concepts to be considered for the 2008–09 round—no reason for their inclusion was recorded and neither was shortlisted. The remaining project was not included in the list of proposals to be considered in 2008–09.

[33] In this respect, on 9 April 2009 the then FAHS President advised the department that he understood that two more proposals were coming from Victoria 'one I will be able to email to you but the other will be by mail unless I decide to scan and PDF it.' The department did not seek to expedite receipt of those proposals. On 16 April 2009, the President forwarded, by mail, a proposal that had been submitted on 23 March 2009 to the Convenor History Victoria Support Group (which the applicant indicated was being provided in response to advice of the FAHS President's call for proposals). Upon receipt of the proposal on 20 April 2009 (subsequent to the shortlisting process concluding on 17 April 2009 and the first Jobs Fund call for applications opening on 18 April 2009), internal departmental advice was that the applicant should be provided with a copy of the guidelines and application form and advised they were welcome to apply. There is no record of the department receiving the second of the additional proposals.

comparison, the April 2009 Jobs Fund guidelines stated that the AHC would be consulted by the responsible department in assessing and recommending projects to be funded in 2009–10, but did not provide for the AHC to play an equivalent role in relation to the 2008–09 selection process.

2.15 As a result, the published guidelines were inconsistent with the involvement in the 2008–09 round by the AHC that had occurred prior to the guidelines being approved on 16 April 2009, and with the processes subsequently undertaken in April and May 2009 to finalise recommendations to the Minister. In particular:

- the then AHC Chair had been consulted on the formulation of a shortlist of projects for which formal proposals would be sought (with that process having occurred in the first half of April 2009)[34];
- AHC members participated in the assessment of the formal proposals subsequently received[35]; and
- the AHC, through its then Chair, provided formal recommendations to the Minister in relation to which projects should be funded in 2008–09.

2.16 In this respect, in recommending an initial group of six projects for funding in 2008–09, the department advised the responsible Minister that: 'The Jobs Fund Guidelines provide for you to seek the advice of the Australian Heritage Council (AHC) in making decisions'. As noted, this advice was not consistent with the terms of the published guidelines in so far as they related to the conduct of the 2008–09 round. In addition, the department did not establish terms of reference or other documented procedures to guide the AHC's participation in the selection process, including in relation to: identifying the membership of the AHC panel for the purposes of the 2008–09 round; the panel and members' relevant roles and responsibilities; and the process by which agreement on recommendations to the Minister was to be established and recorded. Instead, the processes adopted appear to have evolved as circumstances arose and through verbal communications. In this respect, in September 2012 DSEWPaC advised ANAO that:

[34] As is discussed further at paragraphs 3.26 to 3.26, this process was largely undocumented.

[35] In addition to obtaining AHC comments in relation to those projects, an AHC member completed written assessments in relation to an initial group of six prioritised proposals (see paragraph 3.51). AHC involvement in the assessment of the remaining 32 formal proposals considered in 2008–09 is less clear from the departmental records—see further at paragraphs 3.54 and 3.55.

Because of the initial limited timing available to the department to initiate this program, improvements to processes were being included as time and circumstances allowed. Enhancements to the process, such as utilising additional expert assessments, were included over time in a deliberate effort to ensure the decisions were informed by the best available expert advice.

2.17 While departmental records included some interactions between AHC members in relation to the merits of some of the projects considered in 2008-09, this did not provide a complete record of relevant AHC deliberations.[36] The documented assessment process also did not include a record of the final endorsement by panel members of each project included in the two tranches of projects recommended to the Minister in 2008–09 by the AHC (via letters from its Chair on 24 April 2009 and 14 May 2009). While, to some extent, this situation reflects the short timeframe in which the 2008-09 round was undertaken, it does not assist in promoting the transparency and accountability of the grant selection process.

2009–10 funding round

Involvement of peak bodies in identifying candidate projects

2.18 The first public call for applications to the Jobs Fund, including in relation to the 2009–10 round of the heritage component, was opened on 18 April 2009. The published guidelines provided that candidate projects for the heritage component could also be identified in consultation with 'relevant community organisations and state, territory and local governments.' In this respect, the department again invited state and territory government agencies to nominate priority projects; and wrote to National Heritage-listed place managers encouraging them to submit applications for the 2009–10 round.

[36] For example, in recommending the initial group of six projects to the Minister on 24 April 2009, the then AHC Chair annotated one project (Cockatoo Island Convict Trail) as being recommended 'subject to resolution of an outstanding issue within the Council.' The relevant project summary provided in the accompanying departmental brief advised that the AHC assessment of the project was: 'Support–especially the project's contribution to heritage awareness and the preparation of the site for World Heritage listing. One member of the Council has some remaining questions regarding the scope of the project—these will be resolved within the Council before any announcement is made.' In this respect, during the AHC deliberations leading to the presentation of the six recommended projects, the AHC Chair had advised other panel members (also on 24 April 2009) that: 'On the amount for Cockatoo Island and [*the Macquarie's Bicentennial Project, Old Government House*] I am assured there is no cost shifting involved and that [*they are fortunate*] to be costed and ready to go and are great heritage places.' However, department records did not identify how that advice had been obtained and from whom.

2.19 On 12 May 2009, the department requested both heritage peak bodies to again coordinate the development of applications from their respective constituent members, and to formulate a priority list of projects for consideration in 2009–10 (within a nominated total value). This approach again reflected the original implementation arrangements that had been agreed by the responsible Minister in March 2009, prior to the heritage component being incorporated into the integrated Jobs Fund (see Appendix 3). The extent to which the process proposed by the department was consistent with the Jobs Fund guidelines published in April 2009 is unclear, as the guidelines had not identified the meaning of the term 'relevant community organisations' in relation to the bodies that were to be consulted in identifying candidate projects. However, departmental documentation does not clearly identify whether each peak body was ultimately involved in that process in the manner originally proposed by the department.[37]

2009–10 selection process

2.20 Advisory panels also played a key role in the 2009–10 selection processes. However, the extent to which this was consistent with the guidelines and/or documented procedures varied significantly. In addition, as with the 2008–09 round, there were significant aspects of panel deliberations that were not adequately documented.

Documentation of roles and responsibilities

2.21 The Jobs Fund guidelines stated that, for the 2009–10 round, heritage projects would be directed to the responsible department 'for assessment and recommendation in line with heritage-specific criteria, in consultation with the Australian Heritage Council'. Consequently, the guidelines provided for the AHC to be involved in the selection process, but in a consultative role only. The guidelines did not provide for any other external organisations or advisory panels to be involved in the selection process.

2.22 The department's internal assessment guide for the heritage component was incorporated as an attachment to the 'Heritage (Jobs Fund) Projects:

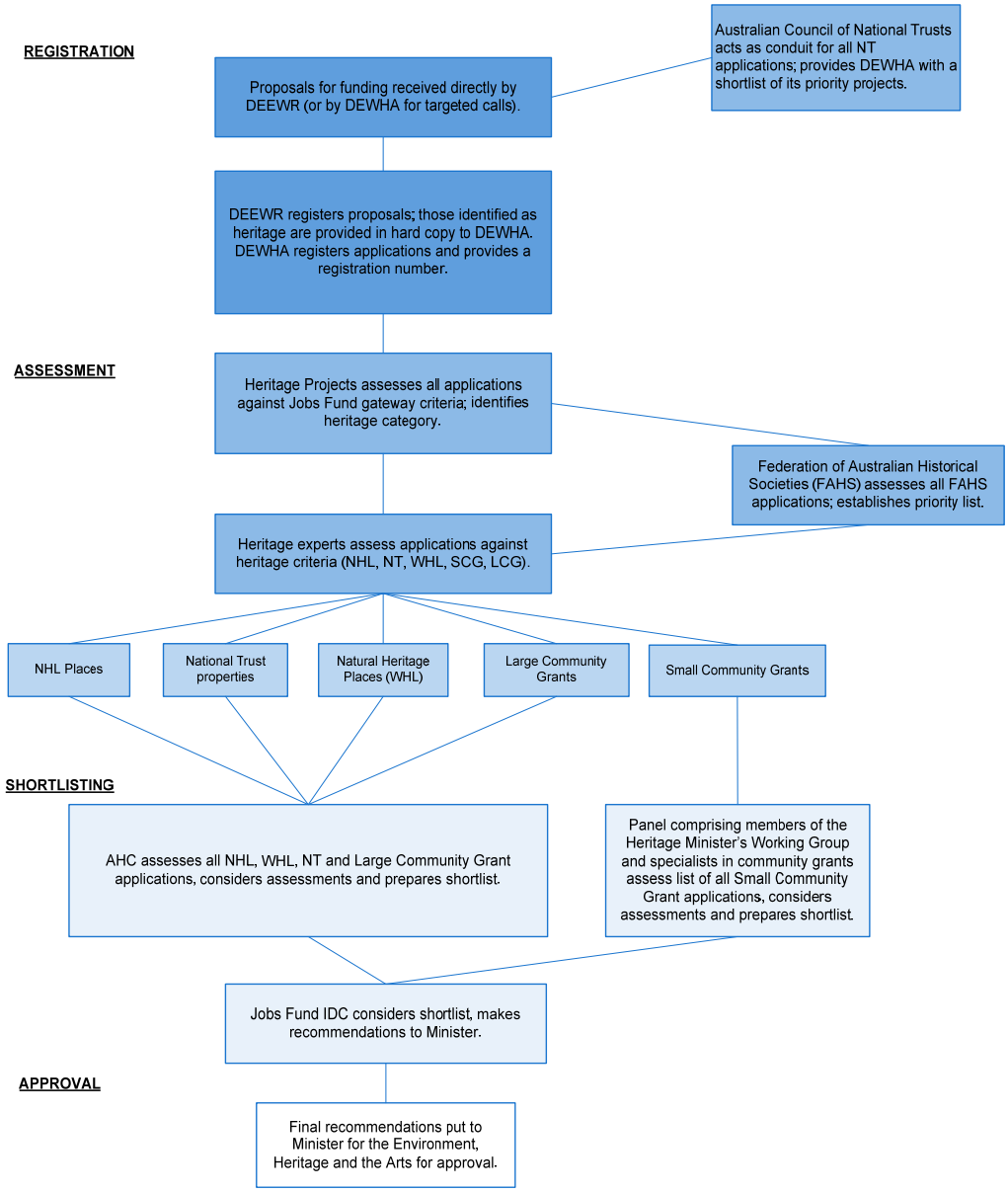
[37] The assessment process flow diagram developed by the department in July 2009 (see Figure 2.1) included reference to the ACNT and FAHS establishing priority project lists, as had been requested by the department in May 2009. The reference to the ACNT undertaking this role was deleted in later versions of the diagram, but the department did not document advice to the ACNT rescinding or revising the original requests. The reference to the FAHS establishing a priority list of historical society applications was retained.

Business Rules' (business rules document), which was developed in July 2009 and became an approved document on 14 September 2009. Despite having been prepared after the Jobs Fund guidelines had been published, the assessment guide provided for non-departmental advisory panels to participate in the selection process in a manner that was substantially different to that set out in the guidelines. Specifically, the assessment guide provided that applications under each category would be assessed by one or more of the advisory panels, which would formulate shortlists and, in some cases, provide recommendations to the Minister. Figure 2.1 sets out the roles identified for each advisory panel in the assessment guide flow diagram.

2.23 In addition to being inconsistent with the published program guidelines, the roles to be played by each panel were described in brief terms only in the assessment guide and the document was internally inconsistent in some respects. The department did not develop terms of reference formally establishing each panel for the purposes of the grant selection process, including their respective memberships and protocols for operation.

Figure 2.1

Advisory panel roles in 2009–10 selection process as set out in the departmental assessment guide



Source: Departmental internal assessment guide for the heritage component (July 2009 version).

Documenting the deliberations of advisory panels

2.24 In participating in the process of providing advice to a Ministerial decision-maker on the merits of proposed grants, advisory panels are required

to comply with the CGGs.[38] This includes an obligation to base funding recommendations on the published selection criteria. Accordingly, it is important that advisory panel members are advised of this obligation, and that the panel's deliberations are appropriately documented so as to provide transparency and accountability in relation to the process followed and the basis for recommendations provided. This is also important to support the decision-maker's capacity to document the basis for grant approvals.[39]

2.25 However, procedures for recording the deliberations and decision-making processes undertaken by each panel were not established and documented**.** As a consequence, the approaches taken to recording those processes varied significantly. This included instances in which:

- meetings or discussions were recorded in departmental notes for file, but without obtaining the endorsement of the relevant panel and/or its chair that the note was a complete and accurate record of the matters discussed and decisions taken (and without any record being made as whether the views of members not present at the relevant meeting had been subsequently obtained);
- it is not possible to accurately identify the specific projects and associated application and assessment material considered by the relevant panel at one or more of its meetings or discussions;
- out of session discussions between panel members and/or between panel members and the department were not documented; and
- final endorsement by members of the relevant panel of funding recommendations provided to the Minister was not documented.

[38] Since December 2007, there has been a requirement that Ministers not approve a grant without first receiving agency advice on its merits (see paragraph 3.5). As noted at footnote 21, where the advice provided by an advisory panel directly informs a decision about the awarding of grants, panel members are taken to be officials of the relevant agency. Consequently, the panel's advice can fulfil the obligation to obtain agency advice, but also necessitates that panel members formulate that advice in accordance with the CGGs and relevant program guidelines (as required under FMA Regulation 7A).

[39] As required under FMA Regulation 12. Specifically, as part of a suite of measures introduced as part of the enhanced grants administration framework, Regulation 12 was amended from 1 July 2009 to require approvers of grants to include in the approval record the basis on which he or she was satisfied that the spending proposal met Regulation 9. In this respect, where decision-makers agree with the recommendations provided, including by an advisory panel, the usual practice is for the decision-maker to rely upon the documented assessment process as satisfying that requirement.

Application of published selection criteria

2.26 A significant implication of the absence of a methodology for passing projects to the advisory panels, and for the panels determining their recommendations, was that none of those recommendations were directly linked to the published selection criteria. This resulted in some projects that had not been recommended based on the outcome of the departmental assessment process being revisited and subsequently recommended to the Minister after receiving support from one or more of the advisory panels, but without an assessment supporting that recommendation being recorded against each of the heritage and gateway selection criteria.

2.27 In addition, the deliberations of the various panels did not result in competing projects being ranked according to assessed relative merit in order to support the transparency of the selection of projects for recommendation to the Minister. The implications of this approach for the capacity to demonstrate the equity of the selection process became particularly apparent in relation to the heavily oversubscribed large community projects category. This included in relation to the selection by the department of two final tranches of large community projects for recommendation to the Minister without the AHC playing the same role as it had in respect to developing the original set of recommendations under that category (see further at paragraphs 5.35 to 5.57).

Recommendations to the Minister

2.28 The Jobs Fund guidelines provided for the AHC to be consulted by the responsible department in assessing and recommending projects to be funded in 2009–10. The guidelines also stated that funding recommendations would be made to the Minister by the department, as follows:

> Recommendations to fund projects under the quarantined heritage component of the Local Jobs stream will be made by DEWHA to the Minister for Environment, Heritage and the Arts or their Delegate.

2.29 However, both the AHC (through its then Chair)[40] and the small community projects Review Panel (through the ACNT Chairman, a member of the Panel) provided formal recommendations to the Minister in relation to which projects should be approved (and associated funding

[40] Projects were recommended to the Minister for approval in 2009–10 by the AHC under all categories other than small community projects but, as noted at paragraph 2.27, the AHC was not involved in formulating all recommendations provided to the Minister in relation to large community projects.

recommendations). In each case, the relevant panel's recommendations were provided directly to the Minister via a letter from the relevant Chair, in conjunction with advice from the department. In each case, the Minister was also advised that the advisory panel's recommendations were based upon heritage considerations only, and that the department would be separately advising the Minister in relation to other considerations.

2.30 In that context, where it is proposed that an advisory panel is to provide formal funding recommendations to the decision-maker in relation to future heritage grant programs, it is beneficial in terms of the transparency and accountability of the program's implementation for:

- the published program guidelines to clearly provide for the advisory panel to undertake that role;
- the processes to be undertaken by the advisory panel in formulating those recommendations to be established and documented prior to the commencement of the selection process; and
- for advisory panel deliberations to be appropriately documented.

Managing conflicts of interest

2.31 An important issue to be considered in the establishment of advisory panels is the potential for actual or perceived conflicts of interest to arise, which can be damaging to government, the agency and the granting activity. A conflict of interest could arise where a panel member has, or could be perceived as having, a direct or indirect interest that might prejudice, or be seen to prejudice, their partiality in the selection of projects for funding. In this respect, the CGGs advise that agencies should put in place appropriate mechanisms for identifying and managing potential conflicts of interest.

2.32 Departmental records indicate that panel members were reminded of the need to observe conflict of interest arrangements at the commencement of some documented meetings. These records also indicate that on some occasions panel members had raised the question themselves. However, there is no record of the panels being provided with guidance as to:

- what would constitute a potential or actual conflict of interest;
- how and when such a conflict of interest should be declared; or
- what steps the person who had made such a declaration should then take in relation to the panel's consideration of the relevant application.

2.33 The department also did not maintain a register for conflicts of interest or otherwise document procedures for the transparent and consistent recording of all declared potential or actual conflicts of interest.[41]

Conclusions

2.34 Reflecting the responsible department's clear focus on maximising the heritage outcomes achieved through this one-off funding allocation, an integral element of the implementation approach adopted was to draw on external heritage expertise and stakeholders. This was also seen by the department as assisting to efficiently identify the 'shovel ready' projects necessary for the program to be implemented within the required timeframes.

2.35 This focus on engaging external expertise and stakeholders in the selection process was reflected in the original implementation arrangements approved by the responsible Minister in March 2009. However, the program guidelines published in April 2009, following the Government's decision that the quarantined heritage funding would be delivered through the Jobs Fund, identified a more limited involvement by external organisations than originally envisaged by the department in advising its Minister.

2.36 Nevertheless, the implementation of both rounds of the heritage component continued to reflect, in large part, the original arrangements rather than those ultimately approved by government and reflected in the published program guidelines. In addition, the approach taken to engaging external parties to participate in the project identification and assessment process could have been improved, particularly in relation to clarity about the role that was to be performed and documenting the subsequent implementation of that role. Further, although there is evidence of awareness within the department of the need to address potential or declared conflicts of interest, no management policies or procedures were developed or implemented in that respect.

[41] In this respect, the department engaged external consultants to undertake assessments of projects against the heritage criteria set out in the guidelines. The relevant agreements required the consultants to advise the department of any conflicts of interest they may become aware of. However, the department also did not maintain a register of any such conflicts that may have been declared in the course of the assessment process.

Recommendation No.1

2.37 To promote adherence to the key principles for grants administration outlined in the Commonwealth Grant Guidelines in situations where advisory panels and/or peak bodies play a role in identifying and/or assessing candidates for funding under future grant programs, ANAO recommends that the Department of Sustainability, Environment, Water, Population and Communities:

(a) document in the published program guidelines the role such bodies are expected to play in the implementation of the program;

(b) establish prior to the commencement of the selection process the processes to be undertaken by such bodies in formulating their recommendations, including how they will be based on an assessment of eligible candidates against the published selection criteria; and

(c) develop policies and procedures for the appropriate documentation of deliberations of such bodies and the effective management of any conflicts of interest.

2.38 **DSEWPaC response:** *Agreed.* The department has implemented significant improvements to its grants administration procedures since mid 2010. In June 2011 the department implemented a Grants Administration Framework, which comprises comprehensive administrative tools for staff to provide policy and legislative guidance and better practice on how granting activities should be properly developed and managed.

2.39 The department has also previously responded to and implemented recommendations from the ANAO's audit on the Development and Approval of Grant Program Guidelines and has adopted a continuous improvement approach to its grants administration with dedicated resources.

3. Selection of projects in 2008–09

This chapter examines the conduct of the 2008–09 funding round of the heritage component.

Available funding for 2008–09 round

3.1 Reflecting the decisions taken in respect to implementing the quarantined heritage funding as a component of the integrated Jobs Fund, the published guidelines indicated that:

- $6 million (10 per cent) of heritage component funding would be allocated through a targeted selection process that was not required to be fully compliant with the common Jobs Fund criteria; and
- the remaining $52 million (90 per cent) would be awarded through the gateway process, including threshold criteria, set out in the guidelines (which incorporated an open application process).

3.2 However, in 24 April 2009, the department advised its Minister that:

> While $6m is required to be spent in 2008–09, this actually means that at least $12m of projects need to be approved at this time (given that the Jobs Fund guidelines limit initial payments to a maximum of 50 per cent of total project funding).

3.3 Accordingly, as it eventuated, a total of $12.72 million was approved for projects through the 2008–09 selection process.

3.4 In this context, ANAO examined the:

- documentation of the assessment and selection methodology for the 2008–09 round;
- processes employed in identifying candidate proposals for funding;
- shortlisting of projects for the submission of formal proposals;
- assessment of formal proposals; and
- formulation of funding recommendations, and provision of advice to the Ministerial decision-maker.[42]

[42] The then DEWHA was the department responsible for administering these aspects of the program.

Assessment and selection methodology

3.5 Robust agency advice to decision-makers is a key underpinning of the various enhancements made in recent years to the Commonwealth's grants administration framework. Specifically, since December 2007, there has been a requirement that Ministers not approve a proposed grant without first receiving agency advice on its merits. This requirement, and other related enhancements to the grants administration framework, is designed to assist Ministers to be appropriately informed when deciding whether to approve grants and to enhance accountability for those decisions. Accordingly, it is important that the advice and recommendations provided to a Ministerial decision-maker are underpinned by a sound assessment methodology that has been consistently applied and appropriately documented. This is also necessary in order to support the Minister's capacity to demonstrate that the relevant obligations that apply when approving grants were satisfied.[43]

Documented methodology

3.6 The Jobs Fund guidelines did not identify how the responsible department was to go about identifying and assessing projects for recommendation to its Minister in 2008–09. Particularly in those circumstances, the establishment of internal procedures to guide the administration process will support sound implementation of the grant program, including the management of associated risks.

Pre-Jobs Fund arrangements for implementing quarantined heritage funding

3.7 As indicated at paragraph 1.17 and outlined in Appendix 3, prior to the establishment of the Jobs Fund, the responsible Minister had agreed to arrangements for implementing the heritage funding. This was to involve candidate projects for all but one funding category being identified through direct contact with heritage stakeholders, rather than through a public submission process, with each category being subject to a separate selection

[43] The principal obligation applying to the approval of all spending proposals is set out in FMA Regulation 9, which requires an approver to make reasonable inquiries in order to be satisfied that a proposal would be a proper use of Commonwealth resources (that is, efficient, effective, economical and ethical use) and would not be inconsistent with the policies of the Commonwealth (which, for grant spending proposals, includes the CGGs and the relevant program guidelines). Where Ministers or other decision-makers agree with the agency 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, so long as they are satisfied that the assessment was conducted with rigour and in accordance with the guidelines.

process. The department had initiated approaches to various stakeholders seeking potential projects in February 2009. However, the arrangements agreed by the Minister in March 2009 were described in broad terms and had not established the:

- procedures to be followed in approaching the various identified stakeholders to nominate projects, and for receiving proposals; or
- basis on which the project shortlists proposed to be developed under each category would be established.

3.8 The identification of an initial pool of potential projects and the shortlisting of projects from within that population for consideration in 2008-09 had been completed by the time the Jobs Fund guidelines were finalised and approved by the then Prime Minister on 16 April 2009. As noted, following representations by the responsible department, those guidelines provided that heritage component projects funded in 2008–09 would be identified, assessed and recommended by the department.

3.9 However, this did not result in the department establishing contemporaneous program documentation identifying the process for implementing the parameters set out in the guidelines. The department also did not advise its Minister of any changes that were to be made to the arrangements agreed in March 2009 or obtain the Minister's endorsement of revised arrangements. This was despite the approach that had been set out in the March 2009 arrangements being no longer relevant under the terms of the April 2009 Jobs Fund guidelines (including that projects would be selected in two separate tranches through different assessment and selection processes, rather than as a single process for each category).[44]

Business rules and assessment guide

3.10 A draft assessment guide for the heritage component was provided to DEEWR by the responsible department on 21 May 2009 (a week after the final recommendations for the 2008–09 round had been provided to the responsible

[44] For example, under the original arrangements projects funded under the small community category would be identified through a two-stage public submission process; whereas, ultimately, three projects nominated through a targeted approach to identifying candidate projects were funded in 2008–09 under that category. Similarly, large community category projects were originally to be identified from proposals sought from states and territories on a pre-determined allocation basis; whereas, the two projects approved in 2008–09 under that category both related to a local government authority proponent.

Minister on 14 May 2009). However, that document was focussed on the conduct of the 2009–10 round as part of the first Jobs Fund call for proposals for which DEEWR was to be the lead agency and initial receipt point for applications. The draft guide made no reference to the 2008–09 round other than to repeat the provision set out in the Jobs Fund guidelines that $6 million had been allocated for expenditure in 2008–09 on projects identified and recommended by the responsible department, and to state that:

> For the $6 million of heritage funding to be expended in 2008-09, DEWHA has sought targeted applications from the Australian Council of National Trusts (ACNT), the state and territory heritage agencies, the Federation of Australian Historical Societies (FAHS) and other key stakeholders.

3.11 As discussed at paragraph 2.22, the assessment guide was subsequently incorporated as an attachment to the departmental business rules document for the heritage component, which became an approved document on 14 September 2009. It was not until December 2010 that amendments to that document were first drafted to identify that different rules had applied to the 2008–09 and 2009–10 rounds (described as Tranche 1 and Tranche 2). The amended version of the business rules document incorporating these and other changes approved on 23 December 2010—more than 18 months after the 2008–09 selection process had been completed and six months after the planned program end-date—stated that:

> In order to maximise the economic stimulus provided by the program through expedited delivery, the heritage component delivered (*sic*) in two distinct tranches. The first (Tranche 1) is a $6 million allocation paid to projects identified as high priority in cooperation with key heritage stakeholders such as the National Trust of Australia and State and Territory Departments with responsibility for heritage management. The selection of projects under this tranche is necessarily targeted to identify projects which are particularly urgent in terms of jobs creation and heritage conservation and 'shovel ready' in terms of implementation...As the rules applying to each tranche are necessarily different, the business rules document identifies these differences by referring to T1 (Tranche 1) and T2 (Tranche 2).

3.12 In relation to the selection of projects in 2008–09, the December 2010 version of the business rules document stated that:

- High priority, 'shovel ready' projects are to be identified in discussion with key heritage stakeholders including the National Trust of Australia and the various State and Territory Departments involved in

the management of heritage places. These organisations will be invited to submit full applications for identified projects.

- Applications will then be assessed by SEWPAC against the eligibility and merit criteria for Jobs Fund (heritage projects).

3.13 Despite these procedures being documented well after the 2008–09 round had been concluded, they did not comprehensively or accurately reflect the actual processes undertaken, particularly in relation to the:

- identification of candidate proposals (see paragraphs 3.14 to 3.18);
- formulation of a short list of projects for which formal proposals would be invited, including the role played by the then AHC Chair and the responsible Minister's Office (see paragraphs 3.26 to 3.29);
- role played by members of the AHC in the assessment of proposals and formulation of funding recommendations to the Minister (see paragraphs 3.51 to 3.57 and 3.60 to 3.64).

Identifying candidate proposals

3.14 Shortly after the Government's February 2009 agreement to provide $60 million for heritage projects as part of its stimulus measures, the responsible Minister and department began receiving inquiries from various parties in relation to how they may be able to access that funding.[45] As outlined at paragraphs 2.6 to 2.13, the department also initiated a process of seeking advice from a range of stakeholders in relation to priority heritage projects that may be able to proceed within a short time-frame.

3.15 Over the period February to April 2009, the department compiled a list of 146 project concepts. The majority of those projects had been proposed in response to departmental invitations to various stakeholders (including the FAHS, ACNT and state and territory government agencies) to nominate 'shovel-ready' projects. However, there is a general lack of documentation available recording those processes, including how and when the department approached each party; the nature of the invitation made in relation to

[45] In some cases, the inquiries arose as a result of word-of-mouth regarding the upcoming funding and were passed on to the department by parties such as the AHC. The department began compiling a mailing list for parties interested in receiving information, and to assist in implementing the intended approach of a targeted call for proposals. The department also sought to review previous funding requests made to the Minister or the department in relation to heritage infrastructure projects.

submitting project nominations; and the subsequent communications between the department and stakeholders that led to the provision of revised project nominations from some parties.

3.16 Other proposals were identified as a result of general or specific funding representations from proponents, or informal contact between the department and relevant stakeholders.[46] The department also sought to identify candidate projects through internal sources, including for sites that appear to have been informally 'shortlisted' or prioritised for consideration.[47] In this latter respect, in response to an invitation to suggest projects in its area of responsibility, Parks Australia (a division within the same department) suggested three projects located in the World Heritage-listed Kakadu and Uluru National Parks. All three projects were ultimately shortlisted and approved as part of the 2008–09 round.

3.17 Departmental records also included information relating to a number of other projects included in the initial list, but for which the available documentation did not identify how or when these proposals had been sought and/or received (and, in many cases, from whom).[48]

3.18 There were other aspects of that process that similarly did not assist in ensuring there was a reliable record of the population of proposals from which the shortlist for the formal proposal stage would be drawn. In particular:

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[46] For example, one of the projects shortlisted was the Lake McKenzie Redevelopment project within the Fraser Island World Heritage Area. Departmental records did not include a contemporaneous record of project nominations relating to that Area being sought, but an internal file note prepared on 15 April 2009 recorded that the department had: 'informally spoken to the Fraser Island World Heritage Community Advisory Committee Chair (on the margins of the recent Australian World Heritage Advisory Committee meeting) to identify whether they might have any suitable, pre-approved projects that are ready to go'. The project was ultimately approved for funding of $1.8 million as part of the 2008–09 round.

[47] For example, on 6 April 2009, advice was sought from the Indigenous Heritage East section of the department as to whether it was aware of potential projects in the Budj Bim National Heritage Landscape at Lake Condah in Victoria, as follows: 'I'm just putting together a table of possible projects for heritage funding and, as discussed, there's a line in there for Budj Bim...It would be helpful to have ideas of the funds likely to be required ie whether its a large, medium [*or*] small scale project and I'll build that into the document. Final sums can be clarified later.' Following discussions with the Lake Condah Sustainable Development Project Manager the same day, five possible projects in the area were identified. These projects were included as a single entry in the list of projects on which the shortlisting process was based. The Budj Bim 'project' was shortlisted, and a proposal submitted by the Winda Mara Aboriginal Corporation was recommended and approved for partial funding for a reduced scope of works.

[48] This included three projects at sites managed by the Sydney Harbor Federation Trust, an Australian Government entity in the same portfolio (see paragraphs 3.37 to 3.38).

- the department advised its Minister in April 2009 that, as a result of the contacts made, it had received 'brief details relating to 146 projects'. However, while there were 146 line entries in the spreadsheet compiled to register project proposals, this included instances of multiple potential projects being registered collectively as one 'project'; and
- the register did not record the date of receipt for any proposal, with the department adopting inconsistent procedures for assigning identifiers to proposals (many were not assigned an identifier, including some that were subsequently shortlisted).

Shortlisting of projects for formal proposals

3.19 For some grant programs, both the capacity to maximise the submission of high quality applications and the cost-effectiveness of the program may be enhanced by adopting a two-stage application approach. Under such an approach, a form of pre-assessment can be used to assist in filtering potential projects so that a full assessment process is only undertaken in relation to those projects most likely to contribute to the program's objectives to a high standard.

3.20 However, regardless of the scale and nature of a grant program, the key requirement is that the information obtained from applicants and other sources is sufficient to reach an informed decision of the merits of each application under the relevant program's guidelines. Where a two-stage application process is used, the level of detail sought at the initial stage will necessarily be less than that required to inform the final funding decisions. However, both the capacity of potential funding recipients to identify the best candidate projects, and of the administering agency to make informed and accountable judgements about the relative merits of those projects, will be best supported by obtaining comparable information in relation to each proposed project. In that context, both the efficiency and effectiveness of the selection process can be expected to be improved by the selection criteria that will be applied being made available to proponents as a basis for identifying appropriate candidate projects and submitting proposals.

3.21 For the 2008–09 round of the heritage component, projects considered in the shortlisting process had been nominated in a variety of formats, with significant variation between projects in relation to the type of information that was provided (often consisting of a brief description comprising a short paragraph). This was, to some extent, a function of the short timeframes within

which the department had sought to compile a list of potential projects. However, it also reflected the fact that the department had not developed a process for ensuring it obtained sufficient and comparable information in relation to each proposal being considered.[49]

Advising potential funding recipients of the selection criteria

3.22 The department's initial planning for undertaking a targeted call for submissions had recognised the need to provide intended recipients with program guidelines to inform that process. Specifically, guiding principles for implementing a targeted call developed in March 2009 had proposed that 'guidelines will be supplied to intended recipients'.

3.23 However, the department's development of separate guidelines for implementing the heritage funding was superseded by the 17 March 2009 decision to incorporate the funding into an integrated Jobs Fund. The Jobs Fund guidelines were not finalised until 16 April 2009, which coincided with the proponents included on the heritage component shortlist for 2008–09 being invited to submit formal proposals. As a result, program guidelines, including selection criteria, were not available for distribution to entities approached to propose potential projects during the period of February to March 2009.

3.24 Nevertheless, given the department was approaching stakeholders directly for project nominations (as well as engaging peak bodies to identify candidate projects on its behalf), it is reasonable to expect that the department would have articulated the parameters it was seeking to address through the funded projects and for that to have been communicated to stakeholders in a transparent and consistent manner. The available evidence indicates that the department communicated broad parameters to a range of stakeholders (particularly the heritage peak bodies and state and territory agencies), but that this was primarily done verbally or through email communications that have not been retained in departmental records.[50] In addition, as discussed at paragraphs 2.7 to 2.13, the department did not seek to confirm the advice

[49] For example, the shortlisting of projects for formal proposals was completed on 17 April 2009. On 21 April 2009, the department advised the proponent for one shortlisted project that it had received a brief description of the project, but asked: 'Do you have a little more detail you could provide me on the project please.' The proponent advised this would be provided with the formal proposal being prepared.

[50] For example, in forwarding four proposals it had received from historical societies on 25 March 2009, the FAHS advised the department that: 'Whilst criteria have not been available to address, proponents have utilised the guidance of [*the then FAHS President*] from the meetings with [*the department*].'

provided to their respective constituent members by the ACNT and FAHS, including in relation to the selection criteria that would be applied.[51]

Selection of shortlisted projects

3.25 Departmental records did not include a documented assessment of the relative merits of the 146 proposals registered for consideration in 2008–09 as a basis for determining which would proceed to the next stage. In this respect, the spreadsheet used to register proposals (see paragraph 3.18) included provision for assessing projects against criteria that had been derived from the gateway[52] and heritage criteria set out in the guidelines. However, these fields were largely incomplete for the majority of the 146 proposals (particularly those relating to employment and the capacity to commence immediately).

3.26 The process that was to be followed in deciding which of those projects would proceed to the next stage was not established in advance of the selection process being undertaken. In this respect, departmental advice of 24 April 2009 to the responsible Minister indicated that the shortlist had been developed based on input from both the Minister's Office and the AHC Chair. A role of this nature for either the Minister's Office or the AHC had not been identified in the program guidelines or any other departmental documentation.

3.27 In respect to the role played by the then Minister's Office, departmental records indicate that it is likely that 'possible projects' were discussed with the then Minister's Chief of Staff on 8 April 2009, but there is no record confirming when this discussion occurred, which projects were discussed or the outcome of the meeting.[53] The department did not retain any record of discussions with the then AHC Chair in relation to the formulation of the 2008–09 shortlist. There was also no contemporaneous documentation of the outcome of that

[51] In this respect, at least one state National Trust expressed concern to the department that it had been required to submit candidate projects to the ACNT before the relevant criteria and priorities were known.

[52] The guidelines provided that projects recommended in 2008–09 would 'meet the spirit of the Jobs Fund criteria'. In this respect, the spreadsheet provided for consideration of whether each project was in an area of high, medium or low unemployment; the number of jobs expected to result; and whether the project was proposed to start in the required timeframe (which, for the 2008–09 round, was June 2009).

[53] On 1 April 2009, an internal departmental briefing advised that the department had agreed to discuss the initial proposals with the then Minister's Chief of Staff, as follows: '[*The department*] will talk him through a shortlist of the most promising projects next Tuesday [*7 April 2009*]—so we can proceed to getting full applications from those that seem most viable for initial funding.' In that context, the revised shortlist of National Trust projects provided to the department by the ACNT was also dated 8 April 2009.

process, and the basis on which shortlisted projects had been selected (and other proposals had not).

3.28 In this respect, the departmental spreadsheet had also provided for proposals to be prioritised for funding. All but three of the 146 line entries[54] in the spreadsheet were assigned a priority rating of 1, 1.1 or 2 (the remaining three projects were not rated, none of which progressed to the formal proposal stage). The basis for this rating scale and the procedures for determining which rating was to be applied to a proposal were not documented (a rating of '1' was identified as representing the highest priority but the other ratings were not defined). Of the 143 line entries that were rated:

- 18 were rated '1', each of which was shortlisted (one in respect to only one of the four projects that had been grouped into a single line entry);
- 29 were rated '1.1', 19 (66 per cent) of which were shortlisted. This included: one separately registered project which was combined with a project at another property managed by the same National Trust entity to form a single shortlisted 'project'; and projects at three historic churches in the ACT that had been separately identified in the spreadsheet but which were combined into a single 'package of works' by the ACT National Trust after being advised of the funding available for the works following the shortlisting process; and
- 96 were rated '2', two (two per cent) of which were shortlisted. One of those was the project that was combined with another National Trust project that had been rated '1.1'. The other related to a project for which a formal proposal was obtained, but which was subsequently omitted from the documented assessment process (see paragraph 3.57).

3.29 Departmental records do not identify:

- whether these priority ratings were assigned prior to, or as a consequence of, the shortlisting process undertaken in consultation with the then AHC Chair and the responsible Minister's Office; or
- the basis on which the projects from each rating group that were shortlisted had been selected for the formal proposal stage, noting that the rating approach did not result in a ranked merit list (either within

[54] As noted at paragraph 3.18, some individual line entries related to multiple projects.

each category or across categories), and a small number of projects rated '2' were shortlisted ahead of other more highly rated projects.

Advice to proponents of shortlisted projects

3.30 There is similarly a lack of documentation of the outcome of the shortlisting process being communicated to relevant proponents. As a result, it is not possible to confirm each proponent that was asked to submit one or more formal proposals and the nature of each request.

3.31 However, other recorded communication between the department and shortlisted proponents indicated that (particularly in relation to National Trust projects) the outcome was based to some extent upon allocating funding to achieve a spread of projects across jurisdictions, rather than only relating to the relative merits of the specific projects considered in the shortlisting process. For example, on 21 April 2009 the WA National Trust sought clarification as to how the shortlisting process outcome had been determined, as follows:

> The various National Trusts were given directions (suggestions) with various amounts nominated for the first round e.g. SA 900K, WA 600K, Tas 250K and the ACT money for a non-Trust property…How were the initial amounts determined? Is there a formula?[55]

3.32 The department's response advised that a shortlist was 'developed by the department in consultation with the AHC Chair' and that:

> No pre-determined formula was applied—the department chose projects for the short-list from lists submitted by stakeholders, taking into account issues such as:
>
> - the ability of these initial projects to be definitely commenced by June 2009;
> - the likelihood of delivering jobs in both the short and long term;
> - the likely public profile of the project and its value in raising greater awareness of the value of heritage;
> - ensuring that there were some projects from all states and territories and from all funding categories in the first tranche of projects.

[55] Contemporaneous documentation of this advice being provided to National Trusts following the shortlisting process was not held in departmental records.

> In some cases (eg South Australia) we deliberately short listed a greater $ value of National Trust projects because we hadn't received many other proposals from that state—and we wanted to ensure all states and territories would see some projects supported in the first round.

3.33 As discussed at paragraph 3.25, assessment of each proposal considered in the shortlisting process against those parameters was not recorded by the department. Further in this respect, the published guidelines did not identify the distribution of funding across jurisdictions as a criterion that would be applied in selecting projects in either round of the heritage component (nor was the basis for adopting this approach identified in any program documentation). In addition, in some cases, the approach of allocating funding envelopes resulted in formal proposals subsequently being submitted for projects that differed from those that had been considered in competition with other potential projects as part of the shortlisting process.

Abbreviated process for assessment of formal proposals

3.34 The department's focus on the need to ensure it was able to meet the requirement to spend $6 million of program funding by 30 June 2009 was reflected in the assessment processes adopted in relation to applications submitted following the shortlisting process. Formal proposals were sought from relevant proponents on 17 April 2009, with a total of 38 applications ultimately being received. The first six funding recommendations were provided to the Minister one week later (on 24 April 2009). On 29 April 2009, the Minister approved five of the recommended projects and did not approve the sixth project. A final tranche of 28 projects was recommended to the Minister on 14 May 2009 and approved on 18 May 2009 (six weeks after the 5 April 2009 announcement of the Jobs Fund).

3.35 However, it is important that applications that are 'fast-tracked' for funding consideration are still subjected to appropriate levels of due diligence and scrutiny.[56] This is because, even where there are time constraints of this nature, the assessment process must be able to appropriately inform the decision-maker on the merits of each project against the program objectives.

[56] See, for example, ANAO Audit Report No.14 2007–08, *Performance Audit of the Regional Partnerships Programme: Volume 2*, Canberra, 15 November 2007, pp. 111 to 121.

Applicant eligibility assessment

3.36 The guidelines published for the first round of the Jobs Fund (including the heritage component) stated that:

> Non-profit organisations, employment services providers, industry associations, unions, peak bodies, regional development agencies, industry associations, local/state/territory governments and community organisations will be eligible to apply for funding under the Local Jobs and Get Communities Working streams.

3.37 Accordingly, under the guidelines, local, state and territory governments were eligible to receive funding, but Australian Government entities were not. In that context, four of the projects shortlisted for the submission of a formal proposal related to the responsibilities of Australian Government entities. These comprised:

- three projects submitted by Parks Australia in response to a departmental invitation to nominate potential projects (see paragraph 3.16).[57] Parks Australia is a division of the responsible department and assists the Director of National Parks with the statutory function of managing Commonwealth reserves. The Director of National Parks is a established under the *Environment Protection and Biodiversity Conservation Act 1999* and is a Commonwealth authority for the purposes of the *Commonwealth Authorities and Companies Act 1997*; and
- one project[58] submitted by the Sydney Harbour Federation Trust (a statutory authority established under the *Sydney Harbour Federation Trust Act)* which is also an Australian Government entity within the same portfolio as the responsible department (see paragraph 3.17).

3.38 For each of the three Parks Australia projects, the departmental assessment stated that the applicant was eligible to apply 'as a legal entity to whom contracts could be issued', and that there was no reason that the project

[57] Specifically: the Renovation of Access Path Uluru Cultural Centre project; the Catfish Creek Walkway Bridge Refurbishment project; and the Access Track and Viewing Area–Lower Gunlom Plunge Pool project.

[58] The Cockatoo Island Convict Trail project.

might be ineligible.[59] A completed eligibility assessment for the Sydney Harbour Federation Trust project was not held in departmental records. There was no documented consideration by the department of the eligibility of Australian Government entities to receive funding. Nor is there evidence of the department seeking legal or other advice in this respect before assessing the relevant projects as being eligible for funding consideration. All four projects were recommended for approval, with the Minister approving each of the Parks Australia projects[60], but not the Sydney Harbour Federation Trust project.

Assessment methodology

3.39 The department developed two templates for assessing each project submitted as part of the formal proposal stage, as follows:

- one template focused on eligibility and identifying the project's expected employment outcomes and commencement and completion timeframe (as set out in the application), and whether the proposed budget appeared correct and included eligible cost items. Completing the template primarily involved the entry of 'yes' or 'no' answers (although it allowed for additional commentary as considered necessary). Departmental records included a completed eligibility assessment for 24 (63 per cent) of the 38 projects assessed; and
- the other template focused on assessing the project's heritage outcomes, through four criteria relating to the project's heritage values (which largely reflected the four heritage criteria set out in the program

[59] The application form required applicants to identify the legal name of the proposing organisation (and the registered business or trading name). The eligibility assessment template developed by the department asked assessors to identify whether the applicant was 'eligible to apply as a legal entity to whom contracts can be issued' (the guidelines stipulated that the department would enter into legally enforceable funding agreements with successful applicants). The template also required assessors to identify whether there was any reason a project might be ineligible. The applications for the Parks Australia projects identified the proposing organisation as 'Department of Environment, Heritage, Water and the Arts', with trading names 'Parks Australia' or 'Kakadu National Park, Parks Australia North'.

[60] As the proponent was an Australian Government entity in the same portfolio, the department was unable to enter into legally enforceable funding agreements for these projects. Instead, a memorandum of understanding was established in relation to each project.

guidelines[61]); and three criteria relating to viability (which called for the assessor to indicate whether he or she believed that: the project should be funded (and if so, for how much), and was viable and able to be delivered in the timeframe provided).

3.40 The department did not prepare any guidance for assessors to follow in completing either template. Nor was a methodology established for combining the two assessments into an overall rating or funding priority for each project when considered against the assessed merits of other projects. As a result, although the 38 formal proposals received sought some 50 per cent more than the total funding expected to be awarded in 2008–09[62], the assessment process essentially sought to establish whether there was a reason that each shortlisted project (or part thereof) should not be funded. This approach contributed to aspects of the assessment process proving inadequate in terms of appropriately informing the responsible Minister on the merits of each recommended project in relation to the published guidelines and objectives.

Assessing 'shovel-readiness'

3.41 The premise of conducting the 2008–09 round through a targeted selection process, rather than an open submission-based approach, was that it would enable projects that were 'ready to go' to be commenced by 30 June 2009. Reflecting this, the published guidelines stipulated that this process would apply to 'projects that are ready to start immediately on securing funding' (sometimes referred to as 'shovel ready').[63] Accordingly, reliable assessment of each project's capacity to commence within the required timeframe was an important element in providing the responsible Minister with a basis for concluding whether proposed projects would be consistent with the guidelines and the stated objective of creating timely employment stimulus through funded projects. However, this was not consistently the case.

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[61] See Appendix 2. The heritage criteria identified in the template were: Will the project contribute to positive heritage outcomes? If yes, which outcomes in particular (conservation/protection; heritage awareness; or both); will the project assist in raising awareness of the value of heritage; is the project consistent with the Burra Charter/management plans/legislation; and will the project provide long-term social and economic benefits.

[62] The 38 projects sought $18.45 million, compared to the $12 million the department had advised its Minister needed to be approved to enable $6 million to be spent by 30 June 2009 (see paragraph 3.2).

[63] The importance of projects being capable of commencing as soon as funding was awarded was reflected in the December 2010 version of the departmental business rules document, which stated that the selection of projects in 2008–09 was: 'necessarily targeted to identify projects which are particularly urgent in terms of jobs creation and heritage conservation and 'shovel ready' in terms of implementation'.

3.42 The organisations asked to submit formal proposals were provided with an amended version of the general Jobs Fund application form. In particular, in asking applicants to advise when they would be able to start their project, the amended form provided specific advice that: 'Eligible projects must be 'ready-to-start' before 30 June 2009'. However, the term 'ready-to-start' was not defined in either the information provided to applicants or the departmental assessment material.

3.43 In assessing whether a project would start within the required timeframe, the department relied upon the commencement date identified in the application, regardless of the nature of the activities involved. For many projects, the application identified that project design, obtaining necessary approvals and other preliminary activities were expected to commence by June 2009, but that construction would not commence until some months later. While such activities are necessary for infrastructure projects, they are unlikely to result in significant project expenditure and, therefore, employment. This factor was not taken into consideration in the departmental assessment.

3.44 In that context, the eligibility assessment template also asked assessors to indicate whether all necessary government approvals had been granted for the relevant project and, if not, whether they would be granted in time to allow commencement before 30 June 2009. However, it did not identify that a negative answer or increased risk in this respect should be taken as rendering the project unsuitable for further consideration in the 2008–09 round. As a result, at least[64] 19 projects (56 per cent of recommended projects) were recommended for approval despite the assessment having identified that it was uncertain as to when the project would receive the approvals necessary for the proposed works to proceed, either because the application had not provided any information in this respect or the relevant approval applications were yet to be submitted. This situation is reflected in the outcome that:

- by August 2009, physical works had not yet commenced for 26 (79 per cent) of the 33 projects approved in 2008–09 on the basis they would commence by 30 June 2009. This was primarily due to necessary approvals still being outstanding; contracting still being in train; and/or the scope of works yet to be finalised and/or fully documented; and

[64] As noted at paragraph 3.39, departmental records did not include a completed eligibility assessment template for 14 (37 per cent) of the 38 projects assessed.

- projects approved in the 2008–09 funding round on the basis of being 'shovel-ready' were disproportionately represented in the 75 heritage component projects that were not completed by the budgeted program end-date of 30 June 2010. Specifically, 2008–09 projects represented 17 per cent of contracted projects, but 23 per cent of projects that failed to be completed by June 2010.

Value for money assessments

3.45 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. While the particular measures that are applicable will vary depending upon the type of project involved, a value for money assessment of a proposal, based on consideration of the outcomes proposed for the amount of funding sought, is an important consideration in determining grant recipients. For a targeted heritage funding program undertaken in the context of an economic stimulus measure, it is reasonable that the assessment of value for money provided by each proposal would include consideration of both the:

- employment outcomes expected to be achieved—it might be expected that such analysis would involve seeking to maximise job creation and retention outcomes for the funding awarded[65]; and
- nature of the heritage works proposed—it might be expected that such analysis would include examining both the cost-effectiveness of the proposed project, as well as the return likely to be achieved from undertaking the project in terms of, for example, increased visitation or avoidance of higher costs later in the life of the same historic site to achieve the same outcome or loss of the site altogether.

3.46 The average cost of the total short or long-term jobs, work experience positions and/or traineeships (jobs) proposed to be created or retained through

[65] The importance of generating employment outcomes was emphasised by the then Prime Minister's Office in the context of agreeing that the 2008–09 round of the heritage component would be conducted through a targeted approach to project identification (as opposed to being submission-based), and that these projects would not be required to meet the mandatory gateway criterion that projects be located in areas of high or increasing unemployment or vulnerability.

31 of the 34[66] projects recommended for approval in the 2008–09 round was $23 116 per job. However, the average cost varied widely for individual projects, ranging from $6222 to $172 625 per job. Nevertheless, the department did not seek to assess whether the employment outcomes forecast for each project represented value for money for the funding sought, or to otherwise advise the Minister in this regard.[67] This approach contributed to projects being recommended for approval despite the application not having quantified the expected employment outcomes; or the Minister being advised that a project would result in employment that was inconsistent with the application, but with the basis for the outcomes reported to the Minister not being recorded.

3.47 In relation to the value for money of proposed heritage works, the assessment templates incorporated consideration of proposed project budgets and the appropriateness of cost items, and of the expected heritage outcomes. These assessments assisted in identifying whether each project had been considered to merit funding as a heritage infrastructure project, and included consideration of a range of factors that could be seen as impacting on the value for money likely to be achieved through the project. However, the form in which these assessments were documented could have been improved in order to ensure that the basis on which the project had been assessed as representing value for money in heritage terms was clearly recorded.

3.48 A methodology for combining the assessment of stimulus and heritage outcomes, incorporating input from the AHC expert panel, into an overall value for money assessment was not established. In particular, the assessment approach did not incorporate a methodology for consistently recording a conclusion as to whether each project represented value for money in terms of generating timely employment stimulus through projects that achieved positive heritage outcomes. The summaries provided to the Minister in respect

[66] Of the remaining three recommended projects, one was recommended for partial funding but without the Minister being advised of the revised expected employment outcomes compared to those set out in the application; and the applications submitted in relation to the other two projects failed to quantify the employment outcomes (for one of those projects, the department advised the Minister that the project would result in ten short-term and two long-term jobs, but the basis for that advice is not identified).

[67] In recommending the first tranche of six projects, the department provided general advice in relation to the type of employment each project was expected to provide, but did not quantify the number of jobs expected to result. In recommending the second tranche of 28 projects, the department provided advice on the number of positions expected to be generated, as set out in the application. In some cases, additional commentary relating to the nature of the employment opportunities to be generated was provided, with this generally being extracted directly from the application rather than representing departmental assessment of the applicant's claims.

to each recommended project provided brief advice only and did not seek to confirm that the department had concluded that the outcomes proposed represented value for money for the funding recommended, or the basis on which the Minister would be able to draw such a conclusion.

Formulation of funding recommendations

3.49 Funding recommendations for the 2008–09 round were formulated through two separate processes.

Initial group of six projects prioritised for assessment

3.50 As noted, the department had invited formal proposals for projects that were collectively seeking more funding than was intended to be awarded through the 2008–09 selection process. However, the department prioritised six of the shortlisted projects for assessment and recommendation to the Minister, in advance of the remaining competing proposals being assessed (and, in two cases, received). The department did not identify the basis on which the six prioritised projects had been selected.

3.51 The assessment process for these six projects was completed over the five day period between Monday 20 April 2009 and Friday 24 April 2009, when the department proposed to provide recommendations to the Minister. The assessment approach adopted included the eligibility and heritage assessment templates being completed by one or more departmental assessors. For at least some of those six projects, a member of the AHC also completed a heritage assessment template.[68] Comments on each of the six projects were also obtained from the then AHC Chair and another AHC member. In at least one case, an AHC member indicated caution about proceeding with funding recommendations ahead of all proposals being considered. However, this did not result in the approach of prioritising certain projects for recommendation to the Minister being revised.

AHC endorsement of the first six projects recommended

3.52 The process for obtaining AHC endorsement of the first six projects to be recommended to the Minister, and associated funding amounts, was not established in advance of the recommendations being finalised. On 24 April

[68] It is unclear from departmental records as to whether completed assessments were received in relation to each of these six projects from the relevant AHC member.

2009 (the same day as the first recommendations were to go to the Minister), the then Chair of the AHC emailed five of the six other Council members[69] advising that the AHC needed to give the Minister its view on the first batch of projects that afternoon and sought the members' 'views and hopefully support' for the amounts proposed for each of the six prioritised projects.[70] Departmental records did not include replies from any of the AHC members.

3.53 A letter from the AHC Chair to the responsible Minister, also dated 24 April 2009, recommended that the Minister approve the six projects circulated to AHC members but, in three cases, for amounts that differed from those identified in the circulated list. The recommendations included in the letter reflected those set out in the covering departmental brief also provided to the Minister on 24 April 2009. However, the basis on which the amounts recommended for each project had been finalised was not recorded.

Remainder of recommended 2008–09 projects

3.54 The remaining 32 applications were assessed over the subsequent three weeks, with recommendations to the Minister being finalised on 14 May 2009. The assessment process adopted for these remaining applications differed from that applied in relation to the initial six projects in that the department did not obtain written heritage assessments from an AHC member. The rationale for not pursuing this approach was not documented.

3.55 Following the Minister's decision to approve five of the six projects recommended in the first tranche, a further 28 projects were selected from the remaining 32 projects for inclusion in a final tranche of projects recommended for funding in 2008–09. The only record of the deliberations (including

[69] The remaining member was part of the AHC natural heritage expert pair, who was subsequently involved in the 2009–10 selection process. In that respect, the AHC expert pairs comprise members of the Council that have expertise in particular areas of heritage (historic, Indigenous and natural).

[70] The Chair's email further advised: 'I should [*have*] clarified our role in this process earlier. The money is for an employment scheme some of which is earmarked for Heritage. I think this has to be at the heart of our decision making. The Dept has been to site managers and the [*National*] Trust and has asked what have they got that is ready and this is what has come back. These are our best shots at spending [*$6 million*] before 30 June well. While all our comments and concerns some of which I share may be relevant if we had funds to distribute purely on heritage merits the proposition is different it is are these employment schemes good for heritage? [*sic*]...There are many more projects coming. Above are the shovel ready ones. There are at least another 21 to come we need projects of about 12m so we meet requirement to spend [*$6 million*] now.' In this respect, in submitting the first six recommended projects to the Minister for his consideration, the department's 24 April 2009 brief advised that the AHC had assessed the heritage merits of the projects and was not commenting on other issues.

consideration by the AHC panel) that led to those 28 projects being recommended, and the remaining four projects not being recommended, is contained in a spreadsheet prepared by the department.

3.56 The spreadsheet did not assign rankings or ratings to each project, or otherwise identify each project's assessed merit relative to the other projects under consideration. In terms of assessment, the spreadsheet recorded a departmental comment (including as to whether the project was supported) and whether the AHC supported each project for funding. However, the documented assessment process did not include records of relevant departmental and AHC deliberations. The department did not record the process by which the AHC comments had been identified, the material considered to inform those comments, or which AHC members were involved in those deliberations and when.

3.57 Of the four projects not recommended to the Minister, two were omitted from the assessment spreadsheet on which the AHC comments were recorded (as of 5 May 2009). The basis for those projects being omitted from further consideration in the course of the assessment process was not documented.[71] Concerns regarding the suitability of the remaining two projects for funding in the 2008–09 round had been identified in the departmental assessment. The AHC comment recorded against those two projects respectively was 'Supported medium priority' and 'Supported with reservations about supporting a private business'. The only record of final AHC agreement on the 28 projects that were to be recommended to the Minister in the second group on 14 May 2009 was the AHC Chair's letter to the Minister of the same day.

Advice to the Minister

3.58 The department provided two briefs to the responsible Minister in April and May 2009 recommending six and 28 projects respectively for approval in the 2008–09 round. Both briefs included a letter from the then AHC Chair also recommending approval of the relevant projects, with the Chair advising that the AHC had only assessed the heritage merits of projects and was unable to comment on other issues. The department similarly advised

[71] In one case, a heritage assessment completed on 5 May 2009 had supported funding the project. There was no evidence of the second project having been assessed.

the Minister that the department had assessed projects in terms of their proponent capacity, project viability, employment impact and the appropriateness of costings.

3.59 Both briefs identified recommended projects only and, accordingly, met the requirement to provide the Minister with a clear recommendation as to which projects should be approved. However, neither brief advised the Minister that he was being asked to consider a spending proposal for the purposes of FMA Regulation 9 or of the obligations that were associated with the role of approver under the financial framework. Nor did the department clearly outline the criteria against which each project had been assessed[72] and how each project had been assessed against each of those criteria.

First tranche of recommended projects

3.60 As noted, at the time the first tranche of six projects was recommended to the Minister for approval on 24 April 2009, the department had not yet assessed the remaining 32 formal proposals that had been received or were expected for consideration under the 2008–09 round. The department advised the Minister that:

> To date, 36 project proposals have been received in response to [*the request for formal proposals*], totalling $16.16m (GST inclusive). Applications relating to the other 2 projects are expected in the next few days...Given that the Jobs Fund was announced on 18 April, and many of the projects proposals were only received yesterday, we and the AHC focused our initial efforts on assessing six of the most promising proposals received to date.

3.61 The department did not advise the Minister, or otherwise document, the basis on which these six projects had been identified as 'the most promising to date' or why it had been considered necessary for those projects to be prioritised for funding consideration ahead of other proposals being

[72] In this respect, Attachment B to both briefs set out the mandatory gateway criteria and heritage-specific assessment criteria identified in the published guidelines. Although the Attachment stated that 'all proposals have been assessed against the following gateway criteria' and that 'proposals have also been assessed against the extent to which they meet the following specific heritage criteria', this was not accurate in that the guidelines had provided that heritage component projects funded in 2008–09 would 'meet the spirit of the Jobs Fund criteria', rather than being required to meet each of those threshold requirements (particularly in relation to the criterion that otherwise applied to require Jobs Fund projects to be located in an area of high or increasing unemployment or vulnerability).

received and assessed.[73] In addition, despite the truncated assessment process applied to these projects, including in relation to providing AHC members with an opportunity to consider the relative merits of shortlisted proposals (see paragraphs 3.50 to 3.53), the Minister was not advised of any constraints to the assessment on which the recommendation to approve the initial six projects had been based. The Minister approved five projects on 29 April 2009 for a total of $3.26 million. The Minister did not record a reason for not approving the remaining project (the Cockatoo Island Convict Trail project). Although there is no evidence of the department seeking any further advice from the Minister in relation to that project, the department excluded the project from any further consideration.

Second tranche of recommended projects

3.62 In recommending a second tranche of 28 projects on 14 May 2009, the department advised the responsible Minister that:

> While the agreed appropriation of $60 million for heritage under the Jobs Fund requires that $6m be spent in 2008–09, this actually requires that at least $12m of projects are approved at the outset (given that the Jobs Fund Guidelines limit initial payments to a maximum of 50% of total project funding). On 27 April you approved total funding of $3 262 127...for five initial projects under the first tranche of Jobs Fund heritage projects. This provides for approximately $1.6m expenditure in 2008–09. In order to expend the remaining $4.4m in 2008–09, you will need to approve funding of at least $8.8m.

3.63 The funding recommended for the second tranche of 28 projects totalled $9 460 357, with the department advising the Minister that:

> While this amount is above the minimum required level of $8.8m to enable full expenditure of 2008–09 funding, it will enable more good projects to commence immediately—and we will manage the initial payment amounts to ensure that we do not pay out more than the $6m allocated for expenditure in 2008–09.

3.64 Despite the total amount recommended exceeding the notional available funding for the 2008–09 round, the projects submitted to the Minister

[73] In this respect, although five projects from this tranche were approved by the Minister on 29 April 2009, no funding agreements were signed in relation to any projects until 1 June 2009, following approval by the Minister of a second tranche of 28 projects on 18 May 2009.

for approval under the second brief were not ranked or prioritised. In addition, as noted, the department advised the Minister that the projects had been assessed by the AHC for their heritage merits only, and by the department in relation to other factors including employment impact. Consequently, a determination of each project's overall relative merits would necessarily have involved a combination of the outcomes of both assessment processes. However, as discussed at paragraphs 3.46 to 3.48, the Minister was not provided with advice as to whether the employment outcomes forecast for each project represented value for money for the funding sought, or (as noted) specific advice as to how each project had been assessed against each of the criteria identified in the relevant attachment.[74]

3.65 In those circumstances, should the Minister have elected to restrict the funding approved in 2008–09 to the minimum required to enable expenditure of $6 million by 30 June 2009, it would have been beneficial to program transparency for the advice provided to the Minister to have clearly identified which projects were recommended as the highest priority having regard for their capacity to contribute to the achievement of program objectives. In the event, on 18 May 2009 the Minister approved all 28 projects as recommended. This brought total approved projects in the 2008–09 round to 33 (87 per cent of the 38 projects for which a formal proposal had been received), for funding totalling $12.72 million. Neither of the briefs recommending these projects to the Minister had identified which of the five categories of heritage component funding each project was recommended under and, therefore, which category the Minister was approving the project's funding to be drawn from.[75]

Conclusions

3.66 In its implementation of the 2008–09 round, the department was focused on meeting the requirement to spend $6 million of program funding by 30 June 2009. This goal was achieved, with all recommendations being provided to the responsible Minister and all funding decisions completed by mid-May 2009.

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[74] Nor was the Minister advised as to the reason for the remaining four projects from the 38 formal proposals received not being recommended for approval in the 2008–09 round.

[75] Similarly, in registering the 38 proposals for assessment the department had not, in many cases, clearly identified which category each proposal was to be considered under. For example, 32 of the 38 projects were identified as relating to a 'category' that was a combination of two or more of the five categories.

3.67 The 30 June 2009 deadline ultimately identified for expending an initial $6 million was less than five months after the Government's 12 February 2009 agreement to provide the quarantined funding, and just over two months after the Jobs Fund guidelines were finalised. In such circumstances, it is important that agencies carefully consider how project selection processes can be expedited, while ensuring the parameters set down in the guidelines are implemented in a manner that supports both procedural consistency and cost-effective administration.

3.68 In this context, although proposals for consideration in 2008–09 were sought through a two-stage targeted invitation process, rather than an open call for submissions, it remained a competitive grant process. However, there were significant shortcomings in the approach taken to implementing the 2008–09 round that were inconsistent with sound practice for competitive grant programs. In particular:

- the assessment and selection methodology adopted was not consistent in some important respects with the published program guidelines but, rather, reflected arrangements developed by the responsible department prior to the Government deciding that the heritage funding would be administered as part of an integrated Jobs Fund;
- there is a general lack of documentation (and therefore accountability) concerning the processes by which candidate proposals were identified;
- the process for shortlisting projects[76] for formal consideration was not established in advance, and the department did not record an assessment of each candidate project against relevant criteria;
- the assessment of the formal proposals submitted in respect to shortlisted projects did not enable the department to inform its Minister as to the relative merits of each project in relation to the published program guidelines, or the value for money these projects offered in terms of their expected employment benefits; and
- although including a clear recommendation as to which projects should be awarded funding, the written advice provided to the Minister as the decision-maker did not outline his obligations under the financial

[76] A two stage process was adopted for selecting projects for recommendation to the Minister in 2008–09.

framework when approving grants, and similarly did not clearly outline the criteria against which each project had been assessed or the results of such an assessment.

3.69 Earlier in 2012, ANAO completed a cross-portfolio audit of the administration of the various grant reporting obligations.[77] That report made three recommendations aimed at enhancing the quality of advice provided to Ministerial decision-makers for grant programs and compliance with the associated reporting obligations. The findings of this audit highlight that those recommendations are particularly relevant to DSEWPaC. All responding agencies agreed to each of these recommendations.[78] Accordingly, no further recommendation has been made in respect to DSEWPaC's assessment and briefing practices.

[77] ANAO Audit Report No.21 2011–12, op cit., Canberra, 24 January 2012.

[78] In the context of a related audit of the development and approval of grant program guidelines tabled in May 2012, DSEWPaC commented that: 'DSEWPaC has a growing maturity in the development and evaluation of grant programs and since the audit's reporting period has implemented a new and robust grants administration framework and dedicated resources to assist with this important activity. In June 2011, DSEWPaC implemented a framework which comprised comprehensive administrative tools for staff in order to provide policy and legislative guidance and better practice on how granting activities should be properly developed and managed.'

4. Assessment of applications for funding in 2009–10

This chapter examines the identification and assessment of candidate projects for funding in the 2009–10 funding round of the heritage component.

Available funding for 2009–10 round

4.1 Following the approval of grants totalling $12.72 million in 2008–09, $45.54 million remained available for allocation in 2009–10 across the five funding categories. However, as discussed at paragraph 3.65, in recommending projects for approval in 2008–09, the department did not identify the category each project was being recommended under. In order to identify the funding remaining under each category, the department subsequently determined the category from which the funding for each of the 33 projects approved in 2008–09 would be drawn (see Table 4.1).

Table 4.1

Determination of funding available under each category in 2009–10

Category	Total funding as per guidelines ($m)	No. of 2008–09 approved projects allocated to category	Funding allocated in 2008–09 ($m)	Funding available in 2009–10 ($m)
Large community	11.4	2	0.68	10.72
Small community	10.0	3	0.30	9.70
National Trust	12.0	17	3.25	8.75
National Heritage List	16.0	6	4.69	11.31[1]
World Heritage List	8.6	5	3.80	4.80[1]
Program funding not allocated to a category (see Table 1.1)	0	0	0	0.26
Total	**58.0**	**33**	**12.72**	**45.54**

Notes:

1. The available funding for the National Heritage and World Heritage categories was collectively increased by $9743 as a result of funding agreements for five projects approved in 2008–09 being executed for amounts that reflected the relevant application, rather than the higher amounts incorrectly recommended for approval. The department did not advise the Minister of the errors or seek a revised written approval.

Source: ANAO analysis of DSEWPaC records.

4.2 For the 2009–10 round, ANAO examined the:

- processes employed in identifying candidate proposals for funding;
- planned assessment methodology; and
- assessment of applicants against both the mandatory Jobs Fund eligibility criteria and the published heritage merit criteria.[79]

Identifying candidate proposals

4.3 Heritage component projects competing for funding in 2009–10 were identified through two means: applications submitted in response to the open call for submissions to the first round of the Jobs Fund; and a targeted invitation from the responsible department to certain parties to submit heritage proposals. Available records indicate that at least 641[80] applications were considered under the heritage component at some stage in the period May to October 2009. However, various anomalies arose in the acceptance or otherwise of some projects for consideration under the heritage component.

Allocation of responses to the open call for Jobs Fund applications

4.4 The then Minister for Employment Participation announced a public call for applications to the first round of the Jobs Fund on 18 April 2009, with applications to close on 22 May 2009. The application form did not provide applicants with the capacity to nominate which element of the Jobs Fund they wished their project to be considered under. Rather, applications were submitted to DEEWR in the first instance, with that department then either assessing the application under the streams for which it was responsible, or allocating it for assessment under the stream (and associated component) DEEWR considered most appropriate to the proposed project.[81]

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[79] The then DEWHA was the department responsible for administering these aspects of the program.

[80] It is not possible to determine precisely how many were considered because projects allocated for assessment but later returned to DEEWR were deleted from the heritage component register.

[81] The guidelines had outlined that a joint committee of the administering departments would undertake this role (see Appendix 4). DEEWR advice to ANAO in this respect was 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...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 (*the general streams for which DEEWR was responsible*).'

Allocating projects to the heritage component

4.5 In establishing the terms on which the heritage component would be incorporated into the Jobs Fund, the explicit intention was that heritage-related projects would be eligible to access funding under either the general streams or the quarantined heritage component.[82] Of particular relevance in this respect is that, to be eligible under the quarantined component, projects were required to be completed by 30 June 2010 (around 12 months from application); whereas, projects of up to two years duration were eligible for consideration under the general streams of the Jobs Fund.

4.6 The Jobs Fund application form included a section (Part D) that was specific to the heritage criteria that were to be used in selecting projects under the quarantined heritage component. The form stated that 'applicants for funding relating to heritage projects' should answer the questions included in that part. However, neither the application form or other material made available to applicants provided any further advice as to whether this section was to be completed in respect to all heritage-related projects, or only by those applicants expecting to compete under the quarantined component. In this context, principles to guide the consistent allocation of heritage-related projects to the quarantined component for assessment were not established, including in relation to whether:

- only applications for which Part D of the application form had been completed would be allocated to the heritage component; and
- an application referred to the heritage component but found to be outside of its parameters (due to, for example, the nature of the project or that it would not be completed by 30 June 2010) would be:
  - returned to DEEWR for assessment under another stream; or
  - retained in the heritage component and deemed unsuccessful.

4.7 As a result, inconsistent approaches were taken in these respects.

[82] Specifically, in advising that the 2009–10 round of the heritage component projects would be subject to the common Jobs Fund gateway process, the then Prime Minister's Office had noted that: 'This has the advantage of ensuring capital H heritage projects are funded within the $60 million and that small h heritage projects have a chance through other streams.'

Due date for acceptance of applications

4.8 As noted, the heritage component comprised one element of the first round of the Jobs Fund. In relation to the process for submitting proposals, the program guidelines stated that applications should be lodged by submitting a completed application to DEEWR. Elsewhere the guidelines also provided that projects to be considered under the heritage component in 2009–10 could also be identified through 'consultation with relevant community organisations and state, territory and local governments'. However, the guidelines did not identify the process by which such consultations were to be undertaken.

4.9 As discussed at paragraphs 2.18 to 2.19, the department sought to engage the heritage peak bodies in the 2009–10 targeted call, and sought nominations of priority projects from relevant state and territory government agencies.[83] In addition, on 13 May 2009, the department emailed managers of National Heritage-listed places alerting them to the 2009–10 round and encouraging them to consider whether they had a project that was ready to go and would meet the criteria for funding.

4.10 The timeframe for submitting proposals was unclear. Specifically:

- the guidelines stated that: 'the Australian Government will seek submissions for projects from May 2009. From 1 July 2009, proponents may submit proposals at any time.' However, this was inconsistent with the advice included in the Minister's public call for applications (and associated media advertisements) which, as noted at paragraph 4.4, stated that applications would close on 22 May 2009; and
- in seeking projects through the targeted call, the responsible department provided an extended timeframe, advising stakeholders:

> To allow for timely assessment and decision-making so that projects can start early in 2009–10, I ask that you provide full applications for these projects by COB Friday 12 June.

4.11 The department did not seek to reflect this amended due date in revised guidelines or other program documentation. Nor did it document the process by which it would be determined which projects would be subject to

[83] While 74 individual applications assessed under the 2009–10 round were registered as having been submitted by state and territory government agencies, departmental records did not include evidence of the requested priority lists having been received and considered in the 2009–10 assessment process.

the extended timeframe, and whether applications would be accepted after 12 June 2009. The only reference to late applications included in the assessment guide for the heritage component stated that:

> Proposals received after the closing date may be assessed after all other proposals have been assessed and subject to the capacity of the Departments. Late applications for funding under the $60 million heritage component will be considered up until the heritage funding component has been allocated. Applications will be returned to DEEWR after this time to be considered as part of the broader Jobs Fund.

4.12 Accordingly, the assessment guide did not identify procedures to ensure applications were accepted for consideration through the heritage component on a consistent basis. In this respect, DEEWR did not accept applications received after 22 May 2009 for assessment under the first round of the Jobs Fund components for which it was responsible. Instead, those applications were registered for consideration in an expected second round of the Jobs Fund.[84] By way of comparison, applications continued to be accepted for assessment under the heritage component until as late as August 2009. This lack of clarity regarding the date by which applications submitted through both processes were to be received led to some further anomalies in the identification of eligible applicants to the heritage component.[85] For example:

- an application for the Walgett Museum Redevelopment project was completed on 17 July 2009 (over one month after the nominated closing date for responses to the targeted call) and received by DEEWR in hardcopy form on 24 July 2009 (over two months after the closing date for public submissions). DEEWR registered the project as a late application for a heritage project and, consequently, did not transfer it to the heritage component for assessment.[86] However, on 12 August 2009 the applicant emailed the proposal directly to the responsible department which registered it for consideration under the heritage

[84] Ultimately, those applicants were advised by DEEWR on 5 November 2009 that they would need to re-apply for consideration under the second round of the two general streams of the Jobs Fund due to revised separate guidelines having been issued for both streams.

[85] In some cases it was unclear whether an application had been submitted in response to the public call or a targeted invitation, with the relevant field in the heritage component register being blank for 91 projects, about 16 per cent of applications retained for consideration under the heritage component.

[86] On 5 November 2009, the applicant was advised by DEEWR of the need to resubmit the application addressing the revised guidelines if it wished to be considered in the second round (see footnote 84).

component as having been received under the public call (as opposed to the targeted call). The project was included in the package small community projects recommended to the responsible Minister for approval on 21 August 2009, each of which was approved; whereas

- an application for the Kingston Heritage Renewal Program project submitted by Kingston City Council and received on 9 July 2009 was also identified by DEEWR as a late application for a heritage project, but was not considered under the heritage component.

Applications referred after selection process was completed

4.13 In September 2009, DEEWR allocated a further 34 applications to the heritage component for assessment. This primarily involved 28 applications that were among a number that had been submitted to DEEWR via email by the due date of 22 May 2009, but not registered by that department due to an original hardcopy of the application not having been subsequently received.[87] Following advice from its probity reviewer, DEEWR registered all such applications in September 2009 and commenced the process of allocating them to relevant streams for assessment.

4.14 Assessment of these 34 applications against the heritage criteria was undertaken between 27 October and 29 October 2009, over a month after funding decisions for the heritage component had been finalised on 18 September 2009. Of the 34 applications assessed in October 2009:

- five projects (three large community and two small community) were given an overall rating against the heritage criteria of 'high priority'. Of those, one project had already been funded through the 2008–09 round of the heritage component;

[87] The remainder were: two projects not referred to the heritage component earlier in the process in error; one project that had been previously returned from the heritage component for assessment under another stream but which had not been assessed; one project that had been incorrectly identified as seeking more than $2 million (the maximum available under all streams other than the Infrastructure Employment Projects (IEP) stream) and two projects correctly identified as seeking more than $2 million, all three of which had been allocated to the IEP stream. Each of the 232 applications allocated to the IEP stream as part of the first round of the Jobs Fund were deemed to be unsuccessful on the basis projects under that stream would be initiated by the Australian Government. DEEWR records indicate that the latter three projects were re-allocated to the heritage component in September 2009 because Part D of the application form had been completed 'indicating that the applicants had intended these projects to be considered under the heritage component'. This followed a review by DEEWR of the 232 projects that had been allocated to the IEP stream, of which 48 were found to have been incorrectly identified as seeking more than $2 million (see further at ANAO Audit No.7 2011–12 op. cit., pp. 73–75).

- five projects (four large community and one small community) were given an overall rating against the heritage criteria of 'suitable' (including one project that could be a high priority if the project could meet the heritage component timeframe for completion and another that was identified as being at the high end of suitable);
- 23 projects were given an overall rating against the heritage criteria of 'not recommended'; and
- an assessment against the heritage criteria for the remaining application was unable to be located in departmental records.

4.15 The applications were not assessed against the Jobs Fund gateway criteria or other aspects of the program guidelines, and these projects were not considered any further by the department or the relevant advisory panels.[88] Instead, on 30 October 2009 all 34 applicants (including the applicant whose project had been funded in 2008–09) were sent the same letter advising that their application had been unsuccessful. This letter, which was the same as the letter provided in mid-October 2009 to unsuccessful applicants assessed under the substantive round for 2009–10, advised that there had been a strong response to the call for proposals for the first round of the Jobs Fund and the field was highly competitive. The letter further advised that:

- each application was assessed against the three gateway criteria and the target areas, and then the four heritage criteria as described in the Jobs Fund guidelines; and
- each proposal was considered on its merits and in comparison with other proposals received.

4.16 However, these projects were not assessed in competition with other applications considered under the heritage component (as there was no capacity for them to displace one of the already approved projects for access to the limited pool of funding). Being denied the opportunity to compete for the funding available in 2009–10 was particularly unfortunate for the small community projects rated as 'high priority' and 'at the high end of suitable' against the heritage criteria. This was because that was the only category under

[88] This was also of relevance to the 23 projects that were 'not recommended' by the heritage assessment, given seven of the 158 projects approved under the 2009–10 round had been similarly not recommended by the heritage assessment prior to consideration of projects by the relevant expert panel.

which suitable projects were exhausted before all available funding had been utilised, such that all but three (three per cent) of the 99 projects rated as marginally suitable or better following the departmental assessment process had been recommended and approved.[89] Remaining funding from the small community projects category was then used to fund projects originally assessed under the large community projects category.

Assessment methodology

4.17 Expeditious completion of the 2009–10 selection process was important in order to provide a reasonable prospect of successful projects providing stimulus within the required timeframe. However, it is important that in considering how the assessment process can be appropriately expedited, agencies also maintain a focus on the need to support the decision-maker's capacity to demonstrate the required accountability for the decisions taken.

4.18 Projects funded in 2009–10 were to be determined through a competitive selection process, with the guidelines stating that each proposal would be assessed on its merits and in comparison to other proposals submitted at the same time or previously. The guiding principle for an appropriately conducted competitive, merit-based selection process is for all eligible, compliant applications to be assessed in the same manner against the same criteria, and then ranked in priority order for advice to the decision-maker. Accordingly, it is important for careful consideration to be given to the method and scale that will be applied in rating and ranking applications.

4.19 In that respect, numerical rating scales have the advantage of being able to effectively differentiate between individual projects and classes of project. By way of comparison, rating applications against selection criteria using qualitative ordinal scales (such as high/medium/low) makes it inherently more difficult to arrive at an overall rating for each application. Further considerations are that:

- ordinal scales usually result in fewer rating points, with a greater number of applications in each rating point, than with numerical scales;

[89] One after being combined with another project for presentation to the Minister as a single 'project' (see footnote 126).

- there are not fixed differences between the respective ratings when an ordinal scale is used; and
- there is not a clear basis for consistently combining qualitative ratings against each criterion into an overall qualitative rating of individual applications, or for forming conclusions in respect to the relative merits of applications assigned the same overall rating.

4.20 As for all assessment processes, an overall review of the ratings attributed to applications considered worthy should be undertaken to confirm the relative ranking of applications. This can be achieved through analytical review that is directed at validating that the published selection criteria have been consistently applied that the assessments and associated scores appropriately reflect each project's merits in terms of the program guidelines.

Documented assessment methodology

4.21 The competitive selection process for the heritage component needed to consider whether projects met the Jobs Fund eligibility criteria and, for eligible applications, the extent to which each project demonstrated that it would deliver positive heritage outcomes and overall value for money. The heritage component business rules document[90] set out an assessment methodology[91] under which:

- all applications would be assessed against each of the gateway criteria and the specific heritage criteria, with a score out of three to be applied for each criterion and all criteria to be weighted equally;
- the department would conduct a due diligence and risk assessment on proposals, including consideration of cost effectiveness, ability to complete on time and in budget, sustainability, and financial viability;
- an assessment report would be prepared for each application including: the score for each criterion and the target areas; comment on potential

[90] As discussed at paragraphs 3.10 to 3.11, this became an approved document on 14 September 2009, by which time the 2009–10 selection process was largely complete.

[91] This was an amended version of the approach DEEWR was applying to the components for which it was responsible, under which the extent to which a proposal met each of the gateway criteria was scored using a five point scale (and each target area, using a three point scale). In each case, the minimum score required to meet a criterion was identified. Those scores were then used to rank competing applications for consideration. Those processes will be examined in more detail in a separate performance audit of the non-quarantined component of the Local Jobs stream currently underway.

project risks, any suggested amendments to the proposal and further information required from the proponent; an overall score for the project; and a recommendation (including justification); and

- applications would then be compared by ranking them based on their overall score, and taking into account any additional factors identified by the assessors.

4.22 The documented methodology was not consistent with the published guidelines in that it did not appropriately differentiate between the nature of the threshold Jobs Fund eligibility criteria and the heritage assessment criteria. Specifically, the documented methodology:

- did not identify how it would be determined whether a project had met each of the mandatory criteria (for example, by nominating the minimum score required to meet a gateway criterion and the target areas); and
- involved the scores achieved against each of the three gateway criteria and the four heritage assessment criteria being aggregated (and equally weighted) to give an overall score for a project.

4.23 Accordingly, this approach explicitly contemplated that a failure to achieve an acceptable score against one or more of the mandatory eligibility criteria could be outweighed by higher scores against other criteria. In this respect, it is not appropriate for the failure of a proposal to satisfy a criterion expressed in the program guidelines as representing a threshold requirement to be presented as only reducing the overall quality of the proposal or as representing a risk that would need to be managed should the proposal be selected for funding. In particular, such practices can adversely affect whether the desired program outcomes are able to be achieved.

Applied assessment methodology

4.24 The assessment methodology set out in the business rules document was not implemented. Instead, the department implemented an approach to assessing the merits of individual applications that involved separate assessments against the gateway and heritage criteria (each of which resulted in an overall rating for the relevant set of criteria), with the two assessments then being combined to arrive at an overall rating for a project. Both sets of criteria assessments and the overall ratings subsequently applied involved the use of a range of qualitative ordinal ratings and commentary, rather than a

scoring methodology. As outlined at paragraph 4.19, it is inherently more difficult to form conclusions in respect to the relative merits of applications where such rating scales are used. In addition:

- the rating scales that were to be applied, particularly in respect to assessments against the gateway criteria, were not clearly established;
- documented guidance for assessors in completing the assessment templates and assigning ratings was also not developed, with considerable inconsistency being evident in the completed assessments;
- a methodology for determining overall ratings against each group of criteria (that is, the Jobs Fund eligibility criteria and the heritage assessment criteria respectively), and as an overall combined assessment was not established; and
- the approach taken to documenting assessments against both sets of criteria became increasingly short-hand and opaque over the course of the assessment process.

4.25 These shortcomings had consequences for the consistency, reliability, transparency and effectiveness of the assessment process.

Assessments against Jobs Fund threshold criteria

4.26 The program guidelines emphasised that only projects that met each of the three gateway criteria and addressed at least one of the four target areas would be considered under any stream of the Jobs Fund, including the 2009–10 round of the heritage component. In that context, eligibility and other mandatory criteria advised to potential applicants must be transparently and consistently applied in the assessment process. It is also advisable to confirm the compliance of each application with those criteria as the first stage of the assessment process. This aids the efficiency of program administration because, in the interests of probity and fairness, non-compliant applications would be expected to be clearly identified as ineligible and excluded from further consideration.

Assessment template

4.27 Under the template initially developed for assessing heritage component projects against the common Jobs Fund criteria, projects were to be awarded a score of between three and zero for each gateway criterion (based on the applicant's response being assessed as either strong, average, poor or

none). The individual scores would then be added to give an overall score out of nine against the gateway criteria. The template also provided for a project's claims against each of the four target areas to be assessed and considered in assigning an overall project rating of 'supported' or 'not supported' based on the Jobs Fund criteria. However, this template was only completed for 15 projects (less than three percent), with those assessments being completed in the early stages of the 2009–10 round assessment process.

4.28 That template was replaced by a revised, and significantly simplified, 'Jobs Assessment' template (an example of a completed assessment is at Appendix 5), with the assessment outcomes also being recorded in an assessment spreadsheet. The Jobs Assessment template did not involve a scoring methodology, but rather the allocation of ordinal ratings and/or commentary against each gateway criterion, consideration of the project plan and budget, and an overall assessment of the project. The revised methodology was not documented through a revision to the approved procedures.

4.29 The revised template did not provide for the assessment of projects against the Jobs Fund target areas. An assessment against at least one target area was recorded in the relevant spreadsheet for less than a third (30 per cent) of projects.[92] This included one project that was rated as poor against each of three target areas and not assessed against the fourth, but which was nevertheless rated as suitable overall by the Jobs Assessment (with that assessment being in part based on the assessed heritage outcomes of the project). That project was recommended and approved.

4.30 For some projects, an overall rating was recorded on the completed Jobs Assessment template. However, for others a comment was made but an overall rating only identified in the relevant spreadsheet.[93] In addition, neither the Jobs Assessment template or any other program documentation identified:

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[92] For the remaining 398 projects, the entry against the target areas either: referred to the overall assessment for the project (61 projects, of which 59 were rated suitable or higher overall by the Jobs Assessment); included a 'nil' or no entry against all four target areas (149 projects, of which 145 were rated suitable or higher overall by the Jobs Assessment); or recorded that the project had not been assessed against the target areas (188 projects, of which four were nevertheless rated suitable overall by the Jobs Assessment).

[93] For example, in the case of the project illustrated at Appendix 5, the assessment spreadsheet recorded an overall rating against the Jobs Fund criteria of 'Suitable–good overall protection and adaptive reuse project but expensive' (which, as can been seen from Appendix 5, is an extract of the overall assessment comment recorded on the written assessment, with the addition of the ordinal rating of 'suitable').

- the matters that should be considered when assessing a project against each gateway criterion;
- the rating scale that was to be used in relation to each criterion and how the appropriate rating was to be determined; or
- how the ratings and/or assessments made against each criterion (and matters relating to project budget, plan and linkages also considered) were to be combined to determine an overall assessment against the non-heritage criteria, or the associated rating scale.

4.31 In particular, the template made no provision for, or otherwise required, the inclusion of a definitive conclusion as to whether the assessor considered the project to have met each of the gateway criteria (and at least one target area) and was, therefore, eligible under the guidelines. While the approach adopted in this latter respect varied between gateway criteria, the consequence was that projects that had not been clearly identified as meeting each of the gateway criteria remained under consideration and, in some cases, were approved for funding based on their assessed heritage outcomes.

Recorded assessments against the Jobs Fund gateway criteria

4.32 A Jobs Assessment was completed in some form[94] in relation to 376 (67 per cent) of the projects assessed under the 2009–10 round. Of those:

- assessments against one or more of the individual gateway criteria were recorded for 317 projects (84 per cent), with an overall rating then being allocated to the project on the basis of the Jobs Assessment; and
- for the remaining 59 projects (16 per cent), the only recorded assessment was an overall rating, with no assessment being recorded against the individual gateway criteria.

4.33 A Jobs Assessment was not completed for 186 projects (33 per cent). For the majority of those projects this was based on the outcome of an assessment already undertaken against the heritage criteria, with this being the case for

[94] Completed Jobs Assessment templates were not held in departmental records for many projects, with the assessment instead having been entered directly into the relevant assessment spreadsheet.

162 (87 per cent) of those projects.[95] While in about a fifth (21 per cent) of those instances the capacity of the project to be completed in the required timeframe (as reflected in the third gateway criterion) was a factor in the heritage assessor rating the project as 'not recommended', in the majority of cases the rating was based on the heritage values of the project (as initially assessed).

4.34 Undertaking a consistent assessment of whether each project met the threshold Jobs Fund criteria as the first stage of the assessment process would have provided a more transparent and reliable mechanism for ensuring only eligible projects progressed to subsequent stages of the selection process. In that context, of the 245 projects (44 per cent of assessed projects) for which assessments were not recorded against the individual gateway criteria, 16 projects were nevertheless recommended to the responsible Minister and 14 of these were approved for funding.

4.35 This situation arose, for example, in relation to projects not recommended by the departmental assessment (including against the heritage criteria) that were subsequently recommended to the Minister for approval following consideration by the relevant expert panel of the project's merits in heritage terms. However, the basis on which those projects had been revisited and a determination made to recommend funding was not well documented.

Rating scale applied

4.36 As noted, the rating scale to be applied in assessing projects against the gateway criteria was not clearly established. This resulted in significant inconsistencies across projects. The most commonly applied ratings were 'strong', 'average' and 'poor', but other terms also used included 'good', 'suitable' 'medium', 'yes', 'possible' and 'unclear'.[96] The meaning of these terms in the context of the assessment process was not defined. In other cases, no rating was identified, with the relevant 'assessment' consisting of the entry

[95] This primarily related to projects that had been rated as 'not recommended' based on the heritage criteria, but also included two projects for which an overall rating of 'suitable' was recorded against the Jobs Assessment despite no assessment having been undertaken against any of the gateway criteria. A further five projects had been rated as suitable or high priority by the heritage assessment, but no assessment against the gateway criteria was undertaken for an unidentified reason. No assessment against either the gateway or heritage criteria was undertaken for the remaining 19 projects due to those projects having been identified as otherwise ineligible for consideration under the heritage component.

[96] In some cases, there was an associated quantitative rating (for example, a rating of 'average' was equated with a rating of two on a three point scale), but this did not reflect a score that would be summed to provide an overall score against the gateway criteria. Rather, these were also an ordinal scale that simply used numbers to identify the categories.

of a date or other information from the application, but without a conclusion being recorded as to whether that information resulted in the project meeting the relevant criterion or not. The use of a range of qualitative ratings of this type is particularly problematic when assessing projects against eligibility criteria that, by their nature, require that the outcome clearly identifies whether the project has met the criterion or not. The effectiveness of this aspect of the assessment process was further diminished by the various approaches taken to assessing projects against each of the three gateway criteria.

Assessment against unemployment gateway criterion

4.37 As noted at paragraph 1.3, although each stream of the Jobs Fund had its own particular focus, in each case the primary objective was to provide timely and targeted employment stimulus in communities affected by the global recession. 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.

4.38 In this respect, as noted at paragraphs 1.17 to 1.18, the responsible department had identified that this aspect of the common Jobs Fund gateway approach would pose particular challenges for the selection of projects that also delivered positive heritage outcomes. Accordingly, in inter-departmental discussions leading to the finalisation of the Jobs Fund guidelines, the department sought to differentiate the 2009–10 round of the heritage component from the broader Jobs Fund, in a similar manner to that which applied to the 2008–09 round. In particular, the department argued that, as good heritage projects did not necessarily exist primarily in areas of high unemployment, it would be appropriate for heritage projects to be selected on the basis of providing targeted employment stimulus to the maximum extent consistent with the achievement of good heritage outcomes. This approach was not accepted and the final approved guidelines stipulated that heritage component projects funded in 2009–10 were also subject to the mandatory unemployment gateway criterion.

4.39 However, in advising its Minister's Office on 30 March 2009 that it believed the then draft guidelines now incorporated the majority of elements it had been seeking, the responsible department also advised that:

> The key remaining issue for us is that the gateway criteria relating to areas of high unemployment and vulnerability will need to be interpreted flexibly in

relation to our projects. This isn't something we can write in, but is the understanding [*the responsible department has*] with DEEWR.

4.40 In this respect, in September 2012 DEEWR advised ANAO that it did not agree that there was any capacity for the gateway criteria to be interpreted flexibly in respect to the heritage component. Specifically, DEEWR advised ANAO that:

> This was not the case. Program guidelines were developed and agreed by all responsible departments and the expectation was that all departments would implement the program in accordance with the guidelines. **The overall program was clearly targeted to supporting and creating jobs in areas experiencing high unemployment or significant rises in unemployment or vulnerability.** This program aim as a 'Jobs' Fund was unambiguous and was clearly supported in the program guidelines and application for funding form. *[Emphasis as per DEEWR advice]*

4.41 Nevertheless, DSEWPaC's view that it had maintained an unwritten capacity to be 'flexible' in interpreting the unemployment gateway criterion in assessing heritage projects was evident in the selection process subsequently adopted. That process resulted in projects that did not demonstrably meet the unemployment gateway criterion being nevertheless recommended and approved for funding. In this context, departing from the selection criteria advised to potential applicants is detrimental to the conduct of a transparent and equitable grant program, and is likely to be detrimental to the achievement of the program objectives from which the published criteria had been derived.

Approach to rating projects against the unemployment gateway criterion

4.42 The 'rating' identified for projects against the unemployment gateway criterion was based on the labour market category allocated to the project's location by the DEEWR Regional Matrix (which categorised areas as having strong, average, below average or poor labour markets). However, inconsistent approaches were taken in relation to how that would be reflected in the assessed outcome. As a result, the recorded assessments provided a confusing and unreliable measure of whether each project had been assessed as meeting the eligibility criterion.

4.43 For example, in the normal course, a project located in an area of strong employment would have difficulty meeting a criterion requiring that it be in an area of high or increasing unemployment or vulnerability. However, of the 61 projects the department identified as being in a strong employment area for

which an assessment was recorded, 50 (82 per cent) were rated as either 'strong' or 'average' against this criterion or the assessment simply identified that the project was in a strong employment area (without further commentary other than, in some cases, to identify the number of jobs expected). These assessments did not provide a clear indication as to whether the department considered the project to have met the criterion or not.[97]

4.44 This compared to nine (14 per cent) of those 63 projects being rated as either 'poor' or 'below average' against the same criterion. However, this did not necessarily result in a project being deemed unsuitable for further consideration (with six (67 per cent) of those nine projects being nevertheless rated suitable or higher overall based on the Jobs Assessment). For example, the departmental assessment of an application seeking funding for a project located in the inner Melbourne suburb of East St Kilda identified that the project was located in an area of strong employment and rated it against the unemployment gateway criterion as: 'Poor–The project is not in high unemployment area'. However, this did not result in the project being identified as ineligible. Rather, the overall conclusion of the Jobs Assessment was recorded as: 'Supported—Excellent heritage outcomes. Employment opportunities poor.' The project was subsequently recommended and approved.[98]

4.45 Table 4.2 illustrates the varying approaches taken to rating projects based on their employment category location. As Table 4.2 also indicates, projects were approved from each of the rating groups.

[97] For example, the project assessed at Appendix 5 was located in a strong employment area. The assessment against this criterion was: 'Strong–40 short, 17 long, 4 work exp & 8 traineeships created' (which was recorded in the assessment spreadsheet as simply 'Strong'). The overall assessment recorded on the Jobs Assessment template commented, inter alia: 'large number of jobs created but very low co-contribution in strong employment areas.' Accordingly, it is unclear whether the assessment was meant to indicate that the project met the criterion to a strong level, or simply that it was located in a strong employment area (which would indicate that it did not meet the criterion)—this project was ultimately recommended and approved for funding.

[98] This example also reflects the approach set out in the originally documented assessment methodology under which a failure to meet one or more of the gateway criteria could be outweighed by a favourable assessment against the heritage criteria also set out in the guidelines (see paragraphs 4.21 to 4.22).

Table 4.2

Assessments of projects against unemployment gateway criterion compared to assessed labour market category of project location

Assessed labour market category[1]	Recorded rating against unemployment gateway criterion				No clear rating recorded		
	Poor	Below average	Average/ Suitable	Strong	Category listed or noted as in priority area	Job# listed only	Other or not assessed[2]
Strong	8	1	23	11	18	0	36
Average	1	1	49	5	17	3	81
Below Average	2[3]	20	23[4]	49	26	2	80
Poor	5	2	4	26	5	0	38
Unclear	1	0	3	4	5		13
Total	**17**	**24**	**102**	**95**	**71**	**5**	**248**
Contracted	*9*	*13*	*51*	*44*	*26*	*1*	*14*

Notes:

1. This table reflects the categories on which departmental records indicate the assessment was based. For the purposes of the analysis in this table, projects located in a Priority Employment Area are not identified separately due to the inconsistent approach taken in assigning ratings against the unemployment gateway criterion to such projects. For example, of the 99 projects located in Priority Employment Areas assessed against this criterion, the assigned rating was identified as being based on the project's location in a Priority Employment Area in 14 instances (with 11 of those projects being rated 'strong', one 'average' and two 'poor'). For the remaining 85 projects, the documented assessment indicates that the rating or other recorded outcome was based on the project's employment category based on the DEEWR Regional Matrix (33 projects were rated 'strong'; 17 'average'; eight 'below average'; and three 'poor)'. For the remaining 24 projects (for which a rating was not allocated), the assessment stated that the project was located in a priority area for 14 projects; listed the employment category for six; listed the category and expected jobs for two; and listed the expected jobs only for two projects.
2. This includes 60 projects for which an overall Jobs Assessment rating was allocated, but no assessment or ratings were recorded against each of the three gateway criteria; two projects for which the recorded assessment referred to information about the project not clearly related to this criterion; and 186 projects for which no assessment against the Jobs Fund criteria was undertaken
3. This includes one project rated as 'Average/Poor'.
4. This includes one project rated as 'Average/Strong'.

Source: ANAO analysis of DSEWPaC records.

4.46 In addition to the absence of a consistent rating methodology, there were other aspects of the approach adopted that also diminished the reliability of the recorded assessments as a measure of whether the relevant project would target any employment outcomes to areas of unemployment. For example, this included instances in which:

- the departmental assessment sought to balance the fact that a project was not located in an area of unemployment with the number of jobs expected to be generated, or with an assessment that the project would contribute to the development of specialist heritage skills and/or provide ongoing community benefit. While these may be relevant factors in determining the overall value for money a project would provide (as a basis for comparing the relative merits of eligible applications), it is unwise to seek to combine considerations of that nature with the initial determination as to whether a project meets the eligibility criterion set out in the published guidelines;
- projects located in the same location were assessed as being in different employment categories; and
- the employment category identified for a project by the departmental assessment did not reconcile with the DEEWR Regional Matrix, or an employment category for a project was not identified in the departmental records as a basis for assessing the project against the unemployment gateway criterion.

4.47 In some cases, the departmental assessment was that, although a project was not located in an area of employment vulnerability, the relevant applicant had indicated that employment would be drawn from such areas; that the project would target a particular class of more vulnerable worker; or that there were potential threats to employment in the area in which the project was located. This was the case, for example, in respect to nine (13 per cent) of the 68 projects located in strong or average labour markets that were approved and contracted under the 2009–10 round. However, these claims were generally accepted at face value in the departmental assessment, without the department seeking to validate the claim. In this respect, as is discussed further at paragraph 7.19, the department did not subsequently obtain information to confirm that the actual employment outcomes reflected that expectation.

4.48 As a result of the assessment approach taken, the unemployment gateway criterion did not operate as an effective eligibility filter, which contributed to an outcome that was not fully consistent with the Jobs Fund guidelines and stated objectives (as illustrated by the outcome of the 2009–10 round set out in Table 4.3).

Table 4.3

Project approval rates by employment category under the 2009–10 round

Employment category[2]	Applications assessed[1] Number (%)	$ applied for	Applications approved Number contracted[3] (approval rate %)	$m contracted (% of total contracted funding)
Located in a Priority Employment Area	**187 (33%)**	**138.19m**	**53 (28%)**	**14.16m (31%)**
DEEWR Regional Matrix categorisation for projects not located in a Priority Employment Area:				
Below average or poor	107 (19%)	57.71m	39 (36%)	7.85m (17%)
Strong or average	258 (46%)	212.30m	63 (24%)	23.28m (51%)
Region not rated in matrix, multiple locations or unable to identify	10 (2%)	10.01m	3 (30%)	0.18m (1%)
Sub-total—non PEA	**375 (67%)**	**280.02m**	**105 (28%)**	**31.31m (69%)**
Total	**562 (100%)**	**418.21m**	**158 (28%)**	**45.47m (100%)[4]**

Notes:

1. The number of applications assessed reflects adjustments to account for one project that was registered twice; and five applications that were submitted and registered separately but combined into two 'projects' during the assessment process. It also excludes 34 projects assessed in October 2009, after funding decisions had been finalised on 18 September 2009 (see paragraphs 4.13 to 4.16).
2. The allocation of projects to each category is based on a comparison of the advice set out in the relevant application regarding the project's location with the postcodes included in each of the 20 Priority Employment Areas and the employment category for each postcode set out in the DEEWR Regional Matrix. This was also the methodology applied by the department, but ANAO observed a range of errors and gaps in the department's data. These have been adjusted for the purposes of this analysis, but do not alter the substantive outcome from that indicated by the department's data.
3. This includes a project approved by the Minister in December 2009 to re-allocate savings from another project that was contracted by the department in June 2010, but excludes four other projects that were approved at the same time but not subsequently contracted (see paragraphs 5.54 to 5.57).
4. This value relates to the amounts originally contracted for, and excludes later variations made in respect to various 2009–10 round projects that resulted in a net increase in contracted funding of some $144 000.

Source: ANAO analysis of DSEWPaC data.

4.49 In particular, projects located in a Priority Employment Area (with a 28 per cent approval rate) had a similar chance of being approved as other projects, including those located in areas with strong or average labour

markets (which had a 24 per cent approval rate).[99] In total, projects located in those Areas represented 33 per cent of applications, 34 per cent of approved projects and 31 per cent of contracted funding.[100] Of the remaining projects:

- those in strong or average labour markets represented around 40 per cent of approved projects (compared to 46 per cent of applications assessed), but accounted for over half of the contracted funding; and
- projects located in poor or below average labour markets (19 per cent of assessed applications) had the highest approval rate (36 per cent), but only represented around 17 per cent of the contracted funding.

4.50 Consequently, in broad terms, of the contracted funding from the 2009-10 round of the heritage component:

- half was allocated to projects located in Priority Employment Areas or other areas categorised in the DEEWR Regional Matrix as poor or below average in employment terms; and
- half was allocated to projects located in areas categorised in the DEEWR Regional Matrix as strong or average in employment terms.

Assessment against gateway criteria two and three

4.51 Similar issues arose in relation to assessments made against the remaining mandatory gateway criteria, which required that heritage component projects be:

- viable and ready to start (gateway criterion two); and
- self-sufficient and/not require Australian Government funding beyond 30 June 2010, which effectively meant a project would need to be completed in time to allow the final grant payment to be made by 30 June 2010 (gateway criterion three).

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[99] A project did not need to be located in a Priority Employment Area in order to be eligible for funding under the Jobs Fund. Rather, as noted at paragraph 1.5, the Priority Employment Areas had been identified as those areas with labour markets that were most likely to be affected by the global downturn. In this context, the practice of not focusing Jobs Fund funding on projects located in Priority Employment Areas was also commented upon by the Joint Committee of Public Accounts and Audit in its recent report that examined ANAO's audit of the IEP stream of the Jobs Fund. See further in Joint Committee of Public Accounts and Audit, *Review of Auditor-General's Reports Nos. 47 (2010–11) to 9 (2011–12) and Report Nos. 10 to 23 (2011–12)*, Report 430, Canberra, May 2012.

[100] By comparison, projects in a Priority Employment Area comprised some 60 per cent of applications considered by DEEWR under Round 1, but represented over 76 per cent of approved projects.

4.52 Again, a variety of approaches were taken to recording assessments against these criteria. Ratings used included 'strong', 'yes' 'average', suitable', 'good', 'medium', 'possible', 'unclear', and 'poor', with the meaning of these ratings not being documented. For some projects, (such as in the example at Appendix 5), the assessment simply involved entering the preferred start and finish dates as set out in the relevant application, but with no rating being allocated and no further analysis of the proposed dates. For example, having regard for factors such as the elapsed time between the submission of the application and the anticipated finalisation of grant approvals and funding agreements.

4.53 Unlike the approach taken with the unemployment gateway criterion, there were projects that were deemed ineligible under the heritage component due to the application proposing a completion date beyond 30 June 2010. However, this only affected a small number of projects and was not consistently assessed. Specifically, as noted at paragraph 4.33, this factor resulted in 34 projects (six per cent) being not recommended based on the outcome of the heritage assessment, with a separate assessment against the gateway criteria not being recorded. Of the 312 projects for which an assessment against the third gateway criterion was recorded, a further 23 projects were identified as having proposed a completion date beyond June 2010. Of those 23 projects:

- ten projects were rated against the third gateway criterion, involving:
  - two rated as 'poor' against that criterion (neither was recommended for approval, although one was ultimately rated suitable overall);
  - five rated 'average' against that criterion. For one of those projects, the heritage assessment had recommended partial funding if elements could be completed by 30 June 2010. Following consideration by the AHC panel, the two year project proposed by the applicant was recommended and approved for part funding for the first year of the project; and
  - three rated as 'strong' against that criterion, one of which was recommended and approved; and
- the assessment against the third gateway criterion for the remaining 13 projects consisted of commentary only. Two of those were ultimately not recommended on the basis they were not able to be condensed into

the required timeframe. The remaining eleven projects were rated as suitable or higher overall (in five cases, this was for partial funding with the need to condense the project within the required timeframe being explicitly identified as the basis for that assessment). Of those projects, three were recommended and approved, in each case for the full funding originally applied for.

4.54 However, the overwhelming majority of applications had proposed that the project would be completed by June 2010. This reflected the fact that, when applications were sought in April 2009, the program guidelines advised that heritage component projects would be required to be completed (or self-sufficient) by 30 June 2010. The majority of applicants structured their applications (submitted in May and June 2009) accordingly, with at least 102[101] (65 per cent) of the applications approved in 2009–10 having been based on an assumed project commencement date between June and August 2009. However, the selection process was not finalised until September 2009.

4.55 In a small number of cases, the departmental assessment questioned whether the completion date nominated in the application was still realistic given the expected project duration, but nevertheless rated the relevant projects as suitable or higher. More commonly, the departmental assessment accepted the project commencement and completion dates identified in the relevant application at face value, with no documented consideration of whether those timeframes were achievable given projects were unlikely to be in a position to commence until at least the end of September 2009.[102] This was reflected in:

- 216 (96 per cent) of the 226 projects for which a rating was recorded against the second gateway criterion being rated average or higher against that criterion, and 81 (93 per cent) of the 87 projects for which only commentary or a date was recorded against that criterion being rated suitable or higher overall by the Jobs Assessment; and
- 205 (95 per cent) of the 215 projects for which a rating was recorded against the third gateway criterion being rated average or higher

[101] A further 21 approved applications did not nominate a commencement date, but instead identified the elapsed time required to complete each component of the relevant project.

[102] The Jobs Fund guidelines stipulated that a proponent must not begin project activities dependent on funding before a funding agreement had been signed.

against that criterion, and 93 (96 per cent) of the 97 projects for which only commentary or a date was recorded against that criterion being rated suitable or higher overall by the Jobs Assessment.

4.56 Ultimately, 58 (37 per cent) of the projects contracted in 2009–10 had not been completed by the budgeted program end-date of June 2010. In this context, an external evaluation of the heritage component commissioned by the department reported that the feedback provided by stakeholders had identified that:

> The initial twelve month timeframe was unrealistic, particularly given the nature of heritage projects, which need to accommodate things like: bad weather, complex conservation and building work, local planning and approval processes, hiring of specialists and specialist equipment and accessing scoping and project advice from heritage advisers, architects, engineers, builders etc. Many grant recipients noted that they were appreciative of the Departmental team's ability to extend timeframes where required and changes of scope where needed. Nevertheless, some commented that the tight timeframes constrained activities such as planning and consultation. It should be noted that 75 per cent of the project sample required project extensions.[103]

Overall Jobs Assessment rating

4.57 An overall rating against the Jobs Fund criteria was identified for 356 projects, with an overall assessment comment only being recorded in relation to a further 20 projects (collectively representing 67 per cent of assessed projects). The ordinal ratings used included: high priority, priority, strong, average, suitable, suitable–low priority, supported, good, poor and part-fund. As with the ratings assigned to individual gateway criteria, the meaning of these various terms in the context of the competitive selection process was not documented. The department also did not document the methodology that was to be used in combining the qualitative ratings or commentary recorded against each gateway criterion and, where considered, target areas (together with commentary in relation to the project's budget, plan and linkages) in order to determine the overall Jobs Assessment rating.

[103] As is discussed further at paragraphs 6.12 to 6.21, ANAO's analysis indicated that the evaluation's finding in relation to the sample of 33 projects examined was representative of the experience across the broader population of heritage component projects.

4.58 This approach did not support the consistent application of a transparent confirmation of the eligibility of each project under the mandatory Jobs Fund criteria. For example, of 31 projects rated as poor against one or more of the gateway criteria, eight were rated as either not recommended or poor overall for the Jobs Assessment. The remaining 23 projects were variously rated overall as: 'high priority' (two); 'priority' (two); 'strong' (two); 'suitable' (eight); 'suitable, but weak' (one); 'suitable for part funding' (four); 'supported' (two); and 'part fund' (one). The heritage outcomes of the relevant project were identified as having been a factor in the overall Jobs Assessment rating for at least 13 of those projects.

Assessment against heritage assessment criteria

4.59 Unlike the template used for assessing projects against the gateway criteria, the template developed for assessing the heritage merits of each project identified:

- the sub-criteria that were to be considered in assessing the project against each of the four heritage criteria set out in the guidelines; and
- the qualitative rating scale to be used for each criterion (which comprised a rating of high priority, suitable or not recommended for three criteria, and consistent or not consistent for the other criterion) and for the overall heritage assessment (which comprised a rating of high priority, suitable or not recommended).

4.60 However, procedures to guide the consistent allocation of ratings were not included in the assessment template or other program documentation. This included in relation to the methodology that was to be applied in:

- rating a project against a criterion based on the assessment recorded against the relevant sub-criteria; and
- combining the ratings achieved against each of the four criteria to formulate an overall rating for the heritage assessment.

4.61 As a result, various anomalies arose which resulted in a significant diminution in the transparency of the assessment process.

Assessments against heritage criteria not documented

4.62 The assessment of projects against the heritage criteria was to be recorded through a completed assessment template, with the summary results

(including ratings against each of the four criteria and an overall rating) to be recorded in the assessment spreadsheet for the relevant funding category. A heritage assessment was documented in some form in the relevant assessment spreadsheet for 539 (96 per cent) of the 562 projects assessed. However, a rating was recorded against at least one of the four heritage criteria for only 232 (43 per cent) of those projects.[104] For 307 projects (57 per cent), no ratings were recorded against any of the individual heritage criteria, with the relevant entries referring to the overall heritage assessment.[105]

4.63 A similar situation existed in relation to the completion of the heritage assessment template. The departmental documentation examined by ANAO, including electronic records, included an accessible version of the completed template for 467 projects. The full template (including assessments against the sub-criteria identified as the basis for formulating a rating against each criterion) had been completed in respect to 164 (35 per cent) of those projects.

4.64 For the remaining 303 projects (65 per cent), only the summary page of the assessment template had been completed. Of those projects, ratings were allocated against one or more of the heritage criteria for 48 projects, but without an assessment against the relevant sub-criteria being recorded. However, for the majority (255 projects, 84 per cent), the documented assessment only identified an overall heritage rating for the relevant project (that is, high priority, suitable or not recommended), with no ratings being recorded against any of the individual heritage criteria. For those projects, the basis on which the assessor had determined the overall rating was recorded through summary comments. While generally reflective of at least some of the matters identified in the sub-criteria listed in the template, these comments varied considerably in form, content and comprehensiveness (an example is included at Appendix 6).

4.65 One factor that contributed to the approach taken for some projects was that, in addition to assessing projects against the heritage criteria, the template also asked assessors to form a view as to whether the project's scope of works

[104] For the majority of those 232 projects (204 projects, 88 per cent), a rating was allocated against each of the four individual heritage criteria. For a further 26 projects, assessments were not recorded against some criteria due to the project having been rated as not recommended or not consistent against another criterion. However, this also includes two projects for which a rating of suitable was recorded against one criterion, but the entry against the remaining criteria simply referred to the overall heritage assessment (which rated the relevant projects as suitable overall).

[105] The remaining 23 projects were excluded due to being ineligible under the program parameters.

was realistic (having regard for the project timeline, budget and technical expertise available) and able to be completed by 30 June 2010. As discussed at paragraph 4.33, this aspect duplicated consideration of the third gateway criterion and led to some projects not being the subject of a Jobs Assessment due to the heritage assessment identifying the project as not being within the heritage component program parameters.

4.66 Of the 303 projects for which assessment ratings against the individual heritage criteria were not recorded in either the completed assessment template or relevant spreadsheet entry, 140 projects (46 per cent) were rated as not recommended by the heritage assessment. However, the remaining 163 projects were assigned an overall heritage rating of suitable or higher.[106]

4.67 In that context, it is appropriate for administering agencies to seek to introduce efficiencies into the assessment process as the opportunity arises. However, care must be taken to ensure that both the reason for any changes to the assessment process, and the revised procedures that will be followed, are appropriately documented. This is important to ensure that any measures taken to accelerate the assessment process do not result in an increased risk of some projects being assessed on a basis that is inconsistent with that applied to other projects, and/or with the assessment basis set out in the published guidelines. The approach taken to documenting heritage component project assessments does not sit well with the need to demonstrate that all competing projects were assessed in the same manner against the same criteria, and that the resulting rating was consistently determined. In this respect, in response to a request for advice as to the basis for the differing approaches taken to documenting the assessment of projects against the heritage criteria, DSEWPaC advised ANAO that: 'Assessors were requested to fully complete templates provided.'

Assignment of ratings

4.68 The approach taken to assigning overall ratings to the heritage outcomes of competing projects highlights the problematic nature of a qualitative rating methodology. In particular, the rating scale set out in the heritage assessment template provided two rating points for projects considered capable of being funded, that is 'high priority' or 'suitable'. As a

[106] This comprised: 52 projects rated as 'high priority'; seven projects rated as 'priority'; one project rated as 'high priority/suitable'; 87 projects rated as 'suitable'; and 16 projects rated as 'suitable–low priority'.

result, of the 337 projects rated higher than not recommended by the heritage assessment, 154 were rated as 'high priority' and 156 were rated as 'suitable'. This form of rating scale does not clearly differentiate between projects' relative merits. This was reflected, to some extent, in the introduction by assessors of other rating points, including 'priority' and 'suitable-low priority' and 'likely to be suitable' for a further 27 projects.

4.69 A further aspect of the assignment of overall heritage ratings was an inconsistent approach to combining individual criterion ratings, with the rationale for those differences not being clearly identified. For example, the 102 projects rated as high priority overall by the relevant heritage assessment for which individual criteria ratings were recorded included:

- 50 projects rated high priority against all three relevant criteria and consistent with the other criterion;
- 32 projects rated high priority against two of the three relevant criteria but only suitable against the third, and consistent with the remaining criterion;
- 19 projects rated high priority against one of the three relevant criteria but only suitable against the other two, and consistent with the remaining criterion; and
- one project rated high priority against two of the three relevant criteria and suitable against the third, but as inconsistent with the remaining criterion.

Conclusions

4.70 The conduct of a competitive grant selection process for the funding available under the quarantined heritage component in 2009–10 presented a number of significant challenges to the department. In particular:

- the $45.5 million in available funding for projects was a substantial (and unexpected) program for this area of government;
- the relevant area of the department had limited experience in the design and implementation of grant selection processes, particularly of this magnitude; and
- given the economic stimulus nature of the program, the timeframe available to obtain and assess candidate proposals was short.

4.71 These circumstances contributed to various anomalies and inconsistencies arising in the processes by which candidate proposals were identified, with some applications being denied the opportunity to compete for the available funding. These circumstances also contributed to shortcomings in the assessment of competing candidates. In particular:

- the documented assessment methodology was not consistent with the published guidelines in that it did not appropriately differentiate between the nature of the threshold Jobs Fund eligibility criteria and the heritage assessment criteria;
- the rating scales that were to be applied were not clearly established;
- documented guidance for assessors in completing the assessment templates and assigning ratings was also not developed, with considerable inconsistency being evident in the completed assessments[107];
- a methodology for determining overall ratings against each group of criteria (that is, the Jobs Fund eligibility criteria and the heritage assessment criteria respectively), and as an overall combined assessment was not established; and
- the approach taken to documenting assessments against both sets of criteria became increasingly short-hand and opaque over the course of the assessment process.

4.72 Of particular note in this respect was that projects that had not been assessed as demonstrably meeting the Jobs Fund eligibility criteria were not excluded from funding consideration. As a result, a number of such projects were recommended and approved for funding.[108] Reflecting the relative priority given to heritage considerations over employment considerations in the implementation approach adopted, this was permitted under the department's documented assessment framework in situations where projects

[107] For example, for a significant proportion of projects, there was no documented assessment against the individual published heritage assessment criteria and/or the Jobs Fund gateway criteria and target areas.

[108] For example, as a result, projects located in a Priority Employment Area had a similar chance of being approved (with a 28 per cent approval rate) as other projects, including those located in areas with strong or average labour markets (which had a 24 per cent approval rate). More than half of the program funding that was contracted in respect to the 2009–10 round related to projects located in areas with a strong or average labour market.

had been assessed as providing worthwhile heritage outcomes. However, such an approach was not consistent with the Jobs Fund guidelines which required that funding only be awarded where the mandatory gateway criteria had been met[109], and is not in accordance with the grants administration framework (which requires decision-makers to be satisfied that approved grants are consistent with the program guidelines and other relevant policies).

Recommendation No.2

4.73 To improve its assessment of applications for future competitive, merit-based grant programs, ANAO recommends that the Department of Sustainability, Environment, Water, Population and Communities:

(a) document and implement assessment methodologies that are consistent with the parameters set out in the approved program guidelines; and

(b) adopt, and consistently apply, rating scales that provide an efficient and effective means of differentiating between eligible applications in terms of their overall claims against the published assessment criteria.

4.74 **DSEWPaC response:** *Agreed.* The DSEWPaC Grants Administration Framework, released in June 2011, incorporates information sheets and templates that outline the importance of documented assessment methodologies that are consistent with the published grant program guidelines.

4.75 The department has established a Grants Management System (GMS) that supports program managers in their delivery of grant funding outcomes including processes for application, eligibility, assessment, merit, recommendation, approval, outcome notifications, funding deeds and contracts, milestones and targets, payments, progress reporting and acquittal processes. The design and use of the GMS is prescribed in the Grants Administration Framework.

[109] This reflected that the primary purpose of the Jobs Fund was to support and create jobs and employment opportunities in communities affected by the global recession and for disadvantaged job seekers. Accordingly, for the heritage component, this overarching program objective was to be achieved through the delivery of projects that also provided positive heritage outcomes, rather than this latter consideration being capable of overriding shortcomings in respect to the primary Jobs Fund objective.

5. Advice to the Minister and funding decisions for 2009–10

This chapter examines the formulation and presentation of funding recommendations and funding decisions by the Ministerial decision-maker in 2009–10.

Introduction

5.1 A key focus of the grants administration framework has been the establishment of specific legislative and policy requirements in relation to the grant assessment and approval process. These include an explicit requirement that Ministers obtain advice from the relevant agency on the merits of a proposed grant before any decision is taken as to whether to approve the grant. This requirement, and other related enhancements to the grants administration framework (including those requiring certain types of grant approvals to be reported to the Finance Minister), are designed to assist Ministers to be appropriately informed when deciding whether to approve grants, and enhances accountability for those decisions.

5.2 In this context, ANAO examined the:

- approach taken by the responsible department to formulating funding recommendations to its Minister; and
- provision of departmental advice to the Minister through a series of briefings recommending projects for approval in the 2009–10 round.[110]

Approach to formulating funding recommendations

5.3 The outcomes of the gateway and heritage assessments were combined to provide an overall departmental rating for each project. Projects were then considered by the relevant heritage expert panel/s for formulation of funding recommendations, which were provided to the responsible Minister by way of letters from the chair of the relevant expert panel and a covering agency brief (which, in each case, agreed with the panel's recommendations).

[110] The then DEWHA was the department responsible for administering these aspects of the program.

Departmental rating process

5.4 The difficulties that arise when using a qualitative rating scale with a small number of rating points to differentiate between competing proposals became particularly evident at this stage of the assessment process. Specifically, projects were assigned an overall departmental rating of '3. Priority', '2. Suitable' or '1. Not Recommended'. Of 547 projects for which a departmental rating was identified:

- 135 were rated as priority;
- 190 were rated suitable; and
- 222 were rated as not recommended.

5.5 It was not always apparent how the overall rating had been derived. In addition, this scale provided little differentiation in terms of the relative merits of the 325 projects considered capable of being funded. This was reflected in the use of additional qualifiers for some projects, with 13 of the projects rated as priority being further identified as at the high end of that rating; and 11 of the projects rated as suitable being identified as at the low end of that rating. However, the ratings assigned by the departmental assessment process did not prove to be a reliable indicator of whether a project was likely to be recommended to the Minister for approval. For example:

- of the 13 projects rated as being at the high end of the priority category, only five were recommended as part of the substantive 2009–10 round (each of which was approved). Of the other eight projects, six were not recommended for approval and two were not recommended to the Minister until a supplementary round undertaken in December 2009 to re-distribute potential savings from previously approved projects (both of those latter two projects were approved by the Minister but neither was contracted to receive funding); whereas
- of the 11 projects rated as being at the low end of the suitable category, five were recommended and approved.

5.6 Table 5.1 identifies the overall rating assigned to the 181 projects that were recommended to the Minister for funding consideration at various times over the course of the 2009–10 selection process[111], and the ratings that had

[111] Of which 162 were approved and 158 ultimately received funding.

been assigned to the 381 projects that were not recommended to the Minister for approval. As Table 5.1 illustrates, a third of projects rated as priority by the departmental assessment were not recommended to the Minister, whereas more than a third of projects included in the next category of suitable were recommended. In addition, a small number of projects not recommended by the departmental assessment were ultimately proposed to the Minister for funding consideration.

Table 5.1

Comparison of assessment ratings allocated to projects recommended and not recommended to the Minister for approval

	Departmental assessment rating			
	Priority (%)	Suitable (%)	Not Recommended (%)	No overall rating (%)
Recommended to the Minister	90 (67%)	73 (38%)	4 (2%)	14 (93%)
Not recommended to the Minister	45 (33%)	117 (62%)	218 (98%)	1 (7%)
Total	**135 (100%)**	**190 (100%)**	**222 (100%)**	**15 (100%)**

Source: ANAO analysis of DSEWPaC records.

Category-based approach to formulating recommendations

5.7 A significant factor in the outcome illustrated by Table 5.1 was that, while all projects were assessed against the same criteria, they were competing in five separate categories. The rate at which projects assigned to each category were successful in receiving funding varied substantially[112], as follows:

- National Trust-managed properties—19 of 24 projects recommended, all of which were approved (a 79 per cent approval rate);
- National Heritage-listed places—20 of 27 projects (74 per cent) recommended, of which 13 were approved (48 per cent approval rate);
- World Heritage-listed natural heritage projects—seven of 12 projects recommended, all of which were approved (58 per cent approval rate);

[112] These approval rates reflect the category to which a project was assigned for assessment, and do not reflect movements that occurred as part of the process of recommending projects for approval using funding from another category, or a number of changes the department made to the allocation of projects between categories subsequent to them being approved by the responsible Minister.

- small community projects—98 of 187 projects recommended (including two applications from the same applicant that were presented to the Minister as a single 'project'), all of which were approved (52 per cent approval rate); and
- large community projects—40 of 315[113] projects (13 per cent) recommended for approval at various stages of the selection process (including three applications from the same applicant that were presented to the Minister as a single 'project'), of which 24 were approved and received full or partial funding, some using funds from other categories (eight per cent approval rate). A further four projects were recommended and approved in December 2009, but did not receive funding.

5.8 These variable approval rates were, in large part, a function of both the process by which the population of projects considered under each category had been identified, and the nature of the proposals received. Specifically:

- all of the 24 National Trust projects and at least half of the 39 projects considered under the National Heritage and World Heritage categories had been received in response to the targeted call for proposals[114];
- of the 187 small community projects, about a quarter were identified as being received in response to the targeted call, whereas more than half were in response to the public call for submissions (departmental records did not identify whether the remaining 38 projects related to the targeted or public call). The nature of projects received through both processes resulted in this category being under-allocated; and
- of the 315 large community projects, only 15 per cent were identified as being received in response to the targeted call while nearly three-quarters were in response to the public call (departmental records did not identify this aspect of the remaining 44 projects). This was the largest category and was significantly oversubscribed.

[113] This number has been adjusted to account for one project that was registered and separately assessed twice by the department.

[114] A further seven projects under these categories were likely to have been received as part of the targeted call, but the relevant field in the department's register of applications was blank.

5.9 The allocation of funding across the five categories (see Table 1.1) had been agreed by the responsible Minister prior to the decision to incorporate the quarantined heritage funding within the Jobs Fund. The responsible department advised its Minister's Office on 30 March 2009 that, in discussions to finalise the Jobs Fund guidelines, it had concentrated on 'inserting as much of what we want into the generic guidelines', and that it had succeeded in getting agreement to inclusion of a number of parameters, including:

> Inclusion of details of the five separate heritage funding 'buckets'—so that this split (as agreed by [*the Minister*] is locked in—which will also be useful in managing expectations.

5.10 Despite that advice, funding was ultimately utilised from at least two other categories to fund projects from the large community projects category. It is appropriate for such measures to be taken where it will ensure that demonstrably higher quality projects are able to funded, but it is also important for procedures to be established that will ensure subsequent amendments to the arrangements set out in published guidelines are made in a way that promotes equity and transparency in the selection process.

5.11 In the case of the heritage component, different approaches to the formulation of funding recommendations were adopted in respect to each category, and procedures for the re-allocation of funding between categories were not established. As a consequence, departmental records do not outline why certain projects were recommended and others were not.

Value for money considerations

5.12 As discussed in relation to the 2008–09 round[115], it is expected that value for money will be a core consideration in determining grant recipients. In this respect, the heritage assessment criteria provided a reasonable basis for assessing the value for money each project would provide in terms of maximising heritage outcomes through use of the available funding.[116] In recommending projects to the Minister, both the department and the Chairs of the expert panels advised that the respective panels had considered projects based on their heritage merits only, with the department being responsible for advising the Minister in respect to other aspects of recommended projects.

[115] See paragraphs 3.45 to 3.48.

[116] The effectiveness of the application of those criteria is discussed at paragraphs 4.59 to 4.69.

5.13 However, the department did not establish a consistent means of assessing the overall value for money provided by each project in terms of the program objectives. In relation to expected employment outcomes, the approach adopted was generally limited to presenting the claims made in the application, with the department not seeking to provide the Minister with advice in relation to the reasonableness of the outcomes proposed.[117] In addition, the department did not consistently seek to adjust expected employment outcomes when recommending a reduced scope of works for approval[118] or, where the department did advise the Minister of a revised employment outcome, the basis for the revised estimate was not documented.

5.14 In that context, an expectation of at least one position being created or retained had been quantified in 165 of the 181 recommended applications, with the average cost of the expected outcomes advised to the Minister ranging from $411 to $163 485 per job. The applications for the remaining 16 recommended projects had not quantified the employment outcomes expected to result from the project. In neither case was the Minister advised of the basis on which the department had concluded that each recommended project represented value for money in terms of the program objectives.

World Heritage, National Heritage and National Trust project categories

5.15 The first package of projects recommended to the Minister for approval related to the categories for National Trust-managed properties; National Heritage-listed places; and natural heritage projects focussed on places listed in, or being assessed for inclusion in, the World Heritage List.

National Trust category

5.16 Following the departmental assessment against the gateway and heritage criteria, of the 24 projects assessed under the National Trust category,

[117] For example, the department advised the Minister that a project to upgrade an historic electricity generating station to enable future public use would create 96 short-term and 1.5 long-term jobs and retain 1727 long-term jobs (an average cost of $1096 per job for the $2 million applied for, and $411 per job for the $750 000 recommended). The department did not provide any further advice on this aspect.

[118] For example, an application seeking $1.28 million to undertake conservation at seven cemeteries had proposed that it would result in 43 short and long-term jobs, work experience and traineeships. The project was recommended for $183 000 to fund works in one cemetery, but the advice provided to the Minister continued to identify the originally projected employment outcomes.

22 projects were rated as either 'high priority' (four, one for part funding only); 'priority' (five) or 'suitable (13). Two projects were 'not recommended'. The AHC historic heritage expert pair considered these projects on 22 July 2009, with each of the 22 projects rated as suitable or higher by the department being supported, but with no relative merit or ranking being identified.

5.17 The department subsequently provided all seven AHC members with a spreadsheet recommending funding for 19 projects, including at least one in each state and territory.[119] The five not recommended projects included the two projects the AHC expert pair had agreed should not be supported, and a further three of the 13 projects rated as 'suitable' which the department had determined to be of lowest priority. The deliberations leading to that conclusion were not documented.

5.18 The total amount recommended of $8.75 million exhausted the National Trust category funding. The department sought endorsement from AHC members for the recommended projects. Departmental records included a response from one of the seven members indicating agreement and, on 13 August 2009, the then AHC Chair signed a letter to the Minister (prepared by the department) which recommended the same 19 projects for approval.[120] On 31 August 2009, the Minister approved the 19 projects as recommended.

World Heritage and National Heritage-listed category

5.19 The department had registered 24[121] projects for consideration under the National Heritage category and 15 projects under the World Heritage category. On 24 July 2009, AHC members were provided with spreadsheets identifying the projects that, based on the input received from the various expert pairs, the department was proposing be recommended under each category; and those that were not recommended. The circulated spreadsheets proposed approval of:

- 12 projects under the National Heritage category for a total of $10.28 million ($1.039 million less than the available funding); and

[119] This included one project seeking $18 938, whereas the guidelines stated that the minimum for individual grants under this category would be $20 000 (see further at footnote 127).

[120] Agreement from the other five members was not documented (see paragraph 5.23).

[121] A further three projects originally considered under World Heritage were subsequently changed to National Heritage during the process of finalising recommendations under each category with the AHC.

- nine projects under the World Heritage category for a total of $5.8 million. This exceeded the available funding by $1 million, with the difference to be sourced from the National Heritage allocation.

5.20 One of the panel members advised the department of their agreement with the proposed recommendations on 24 July 2009. However, on 30 July 2009 the then AHC Chair advised the department of reservations, including that:

> I think we should skew all the [*non-World Heritage List*] $s to built and indigenous heritage given that all the [*World Heritage List category funding*] currently goes to natural [*heritage*]. I am concerned that the criteria we sought of promoting good interpretation and sustainable outcomes have not been in criteria used in the evaluations–yet we decided they should be. I do not support taking any money from the [*National Heritage List category*] to give to [*the World Heritage List category*] and suggest the recommendations be scaled back accordingly...On the whole I think there has been far too heavy a skewing to natural, something the Minister agreed that this project could redress.

5.21 The Chair made a number of suggestions relating to the inclusion or otherwise of particular projects. However, this did not include reference to the selection criteria set out in the guidelines. The department then produced a series of proposals incorporating various changes to the recommended projects and associated amounts, with the aim of balancing each category to the funding available. The basis on which these changes were made having regard for the published selection criteria was not clear in a number of cases. Departmental records indicate that the Chair was consulted in this process, but those communications were not documented and there is no record of consideration of the various lists by other panel members. On 11 August 2009, the department provided the Chair with a draft letter from the Chair to the Minister recommending projects under both categories. Compared to the original proposals circulated on 24 July 2009, this involved:

- $4.8 million recommended under the World Heritage category for seven of the nine projects previously recommended; and
- $11.3 million recommended for 17 projects under the National Heritage category, which comprised:
  - ten of the 12 projects recommended in the original list;
  - four previously not recommended projects, now recommended for amounts totalling $2.59 million. One National Heritage

project that had been recommended (for $2 million) was now not recommended;

- the remaining two of the nine projects originally recommended under the World Heritage category; and
- a project previously not recommended under the World Heritage category, which was now recommended under the National Heritage category.[122]

5.22 The AHC Chair was further advised that the department had decided to include options in its brief to the Minister should one of the recommended projects not be funded. This involved a list of three reserve National Heritage projects, which comprised one of the projects recommended under the original 24 July 2009 list and two projects not recommended in that original list.

5.23 The revised list of recommended projects, and reserve list, was endorsed by the AHC Chair on 13 August 2009, with the departmental brief and accompanying letter from the Chair being provided to the Minister the same day.[123] The recommended projects (excluding the National Heritage category reserve list) would have effectively exhausted the funding available under both categories. The department did not provide the Minister with advice in regard to the relative merits of the projects recommended under each category, or in relation to the three reserve National Heritage projects.[124]

[122] This project had been returned to DEEWR by the responsible department on 4 June 2009 as ineligible under the heritage component due to proposing a two year project. DEEWR assessed the project as not meeting the unemployment gateway criterion. In the interim, the project had also been reinstated into the heritage component (the reason was not documented), where it was assessed as being in an area of average employment and rated 'average' against the unemployment gateway criterion. No assessment was recorded against the other two gateway criteria. Partial funding to fund the first season of the two year project proposed was ultimately recommended and approved under the heritage component.

[123] Departmental records did not include any record of other panel members' endorsement. In this respect, the Chair had advised the department that he had given a commitment to give members an opportunity to comment on the final proposals (including National Trust projects). The department undertook to circulate the list and arrange a hook-up if required, but documentation of that process was not retained.

[124] Some of the individual project summaries provided to the Minister identified the project as a high priority project, priority or suitable project, but this was not universally the case and for some projects the advice provided was inconsistent with the rating assigned under the documented assessment. In addition, the Minister was not advised of the relative merits of projects to which the same descriptor had been assigned; or how the National Heritage projects not recommended to the Minister had been rated.

5.24 The Minister's 31 August 2009 decision approved all seven of the recommended World Heritage projects, but only 13 of the 17[125] recommended National Heritage projects, for $8.85 million, and none of the reserve projects. This left $2.46 million unallocated from the National Heritage category.

Small community projects category

5.25 Following the departmental assessment process, the heritage merits of projects in the small community category were considered by a Review Panel comprising members of the Heritage Minister's Working Group and, for applications from historical societies, a panel from the FAHS. Recommendations were then provided to the Minister, with a letter from the chair of the Review Panel being provided under cover of a departmental brief. In that context, a range of measures were taken to maximise the number of projects that could be funded through this category.

Grant thresholds

5.26 Applications that did not relate to the three specialist categories were allocated to either the large or small community categories based on the funding sought. The program guidelines stated that small community grants would range from $20 000 to $100 000; and large community grants from $100 000 to $2 million.

5.27 However, in July 2009, the department advised its Minister that the only category that appeared unlikely to be fully subscribed was small community projects (with the department advising that it had received applications seeking around $7.6 million of which approximately 80 per cent could be supported, compared to available funding of $9.695 million). In contrast, there was a high demand under the large community category, with applications received to that time seeking funding of $352 million compared to the $10.722 million available.

5.28 The department sought agreement to the small community threshold being increased to $200 000 to enable more proposals from small community

[125] One project was not approved because, as with the project discussed at footnote 122, it had been assessed concurrently by DEEWR and, by the time the Minister made decisions in relation to projects recommended under the National Heritage category, the project had already been approved by DEEWR. As a result, the Minister negated his intended approval of the same project. The remaining three recommended but not approved projects all related to interpretative works at built heritage sites rather than natural heritage (see paragraph 5.20).

organisations to compete in that category, rather than the large community category under which they were unlikely to be successful. The department advised that this would enable the small community category allocation to be fully exhausted 'with funds allocated to suitable good quality projects without the need to seek a second round of applications.' The Minister agreed to the increase (this change in the program parameters was not reflected in a formal change to the published guidelines). The 50 projects moved from the large community category as a result represented over a quarter of the 187 projects assessed under the small community category (19 (38 per cent) of those 50 projects were then approved).

Allocation of funding in excess of amount applied for

5.29 The department's July 2009 brief also advised the Minister that assessment had indicated that heritage outcomes could be improved through provision of expert heritage advice in the implementation of many small community projects. As a result, the department advised that, where required, grants would be recommended as conditional on the engagement of a heritage adviser and that up to $5000 would be made available to cover associated costs—the basis for this amount was not documented. Ultimately, a third of the grants awarded to small community projects were recommended for approval on this basis, comprising:

- 30 projects for which unsolicited additional funding of $5000 per grant was provided, a total of $150 000;
- one project for which additional funding of $5000 was recommended but not provided to the funding recipient due to an error in the advice provided to the Minister; and
- one project that the Minister was advised should be conditional on a heritage adviser being engaged, but for which no additional funding was recommended (the reason for this was not documented).

5.30 In addition, four of those 32 projects were recommended for further additional funding totalling around $45 000 to undertake works not identified in the relevant applications, but which the department and expert panels had agreed would improve the heritage outcomes achieved.

5.31 Despite nearly all small community projects rated as marginally suitable or better being recommended and approved, these measures did not result in the category being fully allocated. Specifically, 98[126] (52 per cent) of 187 applications were approved, comprising all 40 projects rated 'priority' by the departmental assessment; 55 projects rated 'suitable' (95 per cent of projects in that group); one rated 'suitable–low priority'[127]; and two projects rated as 'not recommended'. Both of those latter projects had been revisited following support from expert panels but, in neither case, did the documented assessment reflect the basis for changing the project's status to 'recommended'.

5.32 The package of recommended projects from the small community category was provided to the Minister on 21 August 2009 and approved on 10 September 2009. The total funding approved was $7.7 million, with the department advising that this exhausted the suitable projects under this category. This left $1.986 million (20 per cent) of the $9.695 million available under the small community category in 2009–10 unallocated.

Proposal to partially fund large community category projects

5.33 The department's 21 August 2009 advice also asked the Minister to note that it was proposed to use the unallocated funds to fund components of some large community projects, up to $200 000 each. The proposed approach had developed out of a request from the Review Panel at its 29 July 2009 meeting to review small community projects. Specifically, the Panel had asked the department to look for large community projects seeking just over $200 000 in states with low representation, including seven projects nominated by the Panel (departmental records did not record the basis on which these projects had been identified given the Panel's responsibilities related to the small community category).

[126] This includes two projects by the same applicant which were recommended to the Minister as one combined 'project'. One of those projects had sought $10 000, which was below the minimum threshold (see further at footnote 127).

[127] This project had applied for $9067. The FAHS panel recommended that 'if at all possible, the funding rules be relaxed for this application so that it can receive a grant'; and the Review Panel asked that it be revisited. The Panel was subsequently advised that the applicant had identified additional works and the department recommended funding of $25 000 (including $5000 for a heritage adviser). More broadly, of 18 applications seeking less than $20 000, six were approved. In addition to this project and the project noted at footnote 126, this involved three projects that received $5000 to engage a heritage adviser and one National Trust project (see footnote 119). The remaining 12 applications were not recommended.

5.34 The Minister was further advised that recommendations to that effect had been included in a separate brief providing recommendations for the large community category. Although this proposal was marked as 'not approved' by the Minister, the proposed approach was ultimately adopted.

Large community projects category

Departmental shortlisting process

5.35 The department identified an initial shortlist of 73 large community projects, plus seven[128] projects proposed for partial funding using small community category funds (as an administrative arrangement, the department proposed to re-categorise these latter projects as small community projects). The 73 projects shortlisted for the large community category involved:

- all nine of the projects from that category rated by the departmental assessment as 'priority (high)'[129] for full or partial funding;
- 59 (86 per cent) of the 69 projects rated as 'priority';
- all four of the projects rated as 'priority/suitable'; and
- one (less than one per cent) of the 112 projects rated as 'suitable'.

5.36 The department further divided those 73 projects into three groups: 18 'category 1' projects (involving $15.1 million); 11 'category 2' projects (involving $10.3 million); and 44 'category 3' projects (involving $40.4 million). The department did not identify the methodology that had been applied to assign those respective rankings[130], but the department subsequently advised the then AHC Chair that category 1 represented 'high priority' and category 2 represented 'very good'. In this respect:

- the 18 category 1 projects had each been rated 'priority' by the departmental assessment, but none as 'priority (high)';

[128] One involved three applications for the same site that were to be combined into a single project.

[129] This included one project that had been incorrectly allocated to the large community category. This project was subsequently proposed for funding from unallocated small community funds, but was ultimately included in the small community projects recommended to the Minister for approval.

[130] This role had not been identified in the assessment guide or other documentation and, consequently, the process and criteria to be applied in shortlisting projects had also not been established.

- of the 11 category 2 projects, two had been rated as 'priority (high)' and nine as 'priority'; and
- of the 44 category 3 projects, seven had been rated as 'priority (high)'; 32 as 'priority'; four as 'priority/suitable'; and one as 'suitable'.

5.37 After omitting the category 3 projects, the department identified a final shortlist of 29 large community projects which involved total recommended funding of $25.4 million (more than twice the $10.722 million available). The shortlist also identified the same seven projects as candidates for part-funding using small community category funds. Departmental records indicate that this shortlist was circulated to AHC members, but contemporaneous documentation of that process was not retained by the department.

AHC consideration of departmental shortlist

5.38 Relevant projects on the shortlist were discussed with the AHC Indigenous heritage expert pair on 13 August 2009. The shortlist was subsequently[131] discussed by the AHC Chair and AHC historic heritage expert pair, with the department recording decisions in relation to 11 of the 29 shortlisted projects, plus an additional project from the category 3 projects not included in the circulated list. Specifically, it was agreed that:

- eight of the 29 shortlisted projects would be recommended to the Minister, five from category 1 and three from category 2 (but the recommended amount was not recorded). Two of these projects were agreed based on supportive comments provided by the Indigenous expert pair, but the AHC panel's reasons for deciding to recommend the remaining six projects were not documented;
- one of the 44 category 3 projects would also be recommended to the Minister (but the recommended amount was not recorded). The departmental file note of the 13 August 2009 teleconference with the Indigenous expert pair recorded that, although not in the circulated shortlist, the relevant AHC members had been keen to see the project supported. The department had undertaken to see what elements of the

[131] The departmental record of the meeting is dated 17 August 2009, but other records indicate it may have occurred on 18 August 2009. In addition, the version of the shortlist considered at the meeting is not clear from departmental records.

project (which had sought $711 476) could be supported using the unallocated small community category funding; and

- three of the 29 projects shortlisted by the department (comprising one in category 1 and two in category 2) were of lower priority. The reasons for downgrading these projects were not documented.

5.39 No decisions were recorded in relation to the remaining 18 projects included in the department's shortlist of 29 projects (comprising 12 projects from category 1 and six projects from category 2).[132] At the same meeting, the AHC Chair asked that the recommended funding for each large community project be limited to around $1 million to allow the maximum number of projects to be funded. In this respect, reflecting the maximum grant of $2 million provided for under the guidelines and the departmental assessment of the relevant projects, the amounts proposed for ten of the 29 shortlisted projects had exceeded $1 million. It was agreed that a revised shortlist would be circulated to AHC members for discussion. The subsequent dissemination of a revised shortlist is not clearly recorded in departmental records.

5.40 On 20 August 2009, the then AHC Chair and four other members met with the department to finalise funding recommendations for the large community projects category. The final list agreed by the AHC involved 19 projects being recommended to the Minister for consideration under the large community category for amounts totalling $13.72 million (compared to available funding of $10.722 million). This comprised:

- 16 projects recommended for approval for a total of $10.71 million (ranging from $241 000 to $1 million per project). The 16 recommended projects comprised 12 of the 18 category 1 projects, three of the 11 category 2 projects and one of the 44 category 3 projects. Reflecting the AHC Chair's request, the recommended amounts for five projects had been reduced from that proposed in the department's earlier shortlist by between $121 378 to $1 million (those projects had been originally proposed for between $1.02 million and $2 million)[133], and

[132] One AHC member had also argued for the inclusion in a revised shortlist of a further category 3 project, in respect to which the member had declared a conflict of interest. The departmental record of the meeting reported that the project was discussed in more detail after the member had left the meeting, with the department advising that it considered the project would be better funded over a longer timeframe and that it might be considered in future funding (see further at footnote 134).

[133] The rationale for the reduced funding now proposed for a number of projects was not clearly documented, including in relation to whether there had been consultations with the proponent.

the category 3 project the AHC had agreed to recommend (see paragraph 5.38) was recommended for part funding of $580 000; and

- a further three projects recommended as a reserve list (one from category 1 and two from category 2), for a total of $3.01 million. By way of comparison to the approach adopted in relation to the preferred group of recommended projects, two of the reserve projects were recommended for amounts exceeding $1 million ($1.245 million and $1.303 million respectively, as applied for).

5.41 The final agreed list also included nine projects recommended for partial funding of up to $200 000 using small community category funds. This included two of the 18 projects rated by the department as category 1 for approval under the large community category (for $370 000 and $329 000 respectively).

5.42 These recommendations were reflected in a final shortlist prepared on 24 August 2009, and were provided to the Minister the same day. As a result, 52 of the 73 projects originally shortlisted by the department as representing the best candidates for funding from this category were not recommended to the Minister in any form (comprising three from category 1, six from category 2, and 43 from category 3).[134]

5.43 Consideration of the selection criteria set out in the program guidelines was not referred to or otherwise documented during the various deliberations leading to the finalisation of the projects from within each category that would be recommended to the Minister. Nor did the departmental and AHC deliberations result in the 73 shortlisted projects being ranked in an order of merit, including within each category. Despite the projects proposed for funding exceeding the available funding, the Minister was also not provided with advice in this respect.

Ministerial funding decisions

5.44 On 11 September 2009, the Minister approved large community category funding totalling $9 987 636 for 13 projects comprising:

[134] In addition to the recommended projects, the 24 August 2009 shortlist also identified as 'other priority projects' the nine remaining category 1 and category 2 projects, together with an additional category 3 project.This was the project supported by an AHC member at an earlier meeting (see footnote 132). The reasons for including this project in the list at this stage of the process were not documented.

- $8.22 million for 11 of the 16 recommended projects. The Minister indicated that he did not approve the remaining five recommended projects, but also annotated each with a request for more information; and
- $1.77 million for two of the three reserve projects. The Minister did not identify the basis on which those projects were selected for approval.

5.45 The Minister did not approve any of the nine projects recommended for partial funding utilising unallocated small community category funds. The Minister also included an overall annotation on the brief which stated:

> I have required more information to be provided on several projects not approved—please wait till provided before action on the reserve list is taken.

5.46 However, there is no evidence of the department providing the Minister with any further advice in relation to the five recommended but not approved large community projects, or obtaining any further clarification from the Minister in relation to his decisions not to approve the nine projects recommended for partial funding. The department proceeded on the basis that each of the 13 projects, including the two reserve projects, were approved and would receive funding; and the five projects marked for further information were not approved and would not receive any further funding consideration. However, a different approach was taken in respect to the nine projects recommended for partial funding using unallocated small community category funds, which the Minister had similarly marked as not approved (see further at paragraphs 5.49 to 5.53).

Allocation of remaining heritage component funding

5.47 While the large community category recommendations were being considered by the Minister, the department had prepared a further shortlist of seven large community projects, comprising:

- two of the projects in the reserve list provided to the Minister;
- one of the three category 1 projects considered by the AHC but not recommended to the Minister;
- one of the six category 2 projects considered by the AHC but not recommended to the Minister;
- one of the 43 category 3 projects not recommended to the Minister. This was one of the four projects in this category rated 'priority/suitable' by

the departmental assessment (see paragraph 5.36). In including the project in this new shortlist, the departmental rating was changed to 'suitable'; and

- two of the 111 projects rated by the departmental assessment as 'suitable' but not previously shortlisted (see paragraph 5.35). In originally rating one of those projects as 'suitable', the department had recorded that it had been 'ranked down due to lack of quotes and potential to be completed within time frame'. In including the project in this new shortlist, the departmental rating was changed to 'priority'.[135] The rating identified for the other project remained as 'suitable'.

5.48 The reason for each of these seven large community projects being included in this new shortlist, and the remaining two category 1 projects, five category 2 projects and 42 category 3 projects not being included, was not recorded. Following the Minister's 11 September 2009 decision on the package of large community project recommendations, the two reserve projects from that package that had been included in the new shortlist were removed (one as an approved project and one as a not approved project).

5.49 The department subsequently provided the Minister with a further brief seeking approval of a final tranche of projects to allocate remaining funding of $4.45 million.[136] Rather than providing a clear recommendation as to which projects should be approved based upon their assessed relative merits, the department provided two options for the Minister to consider:

- approve up to $4.45 million (using all remaining funding) for five recommended large community projects (comprising the remaining

[135] The revised rating included in the shortlist commented that: 'Although the project is located in an area of strong employment, the on-going jobs benefits are likely.'

[136] The remaining funding identified by the department comprised $2.46 million under the National Heritage category and $1.99 million under the small community category. This excluded $734 000 that remained unallocated under the large community category and $261 000 included in the program funding in excess of the $58 million allocated across categories in the guidelines (see Table 1.1 and Table 4.1). Also on this brief, the department obtained the Minister's approval of an additional $68 622 for 15 approved small community projects to provide non-GST registered proponents with the capacity to meet the GST inclusive cost of their projects. However, neither the brief provided to the Minister nor other departmental records identified the projects to which the brief related (contrary to the requirements for documenting grant approvals under FMA Regulations 9 and 12). The department did not seek Ministerial approval of additional funding totalling $42 949 for a further five projects, relying instead on the authority agreed by the Minister enabling the department to approve project variations of the lower of ten per cent or $100 000. However, the department did not document its approval of the additional funding for each of those projects for the purposes of Regulations 9 and 12.

projects identified in the new shortlist), which the department recommended for amounts totalling $6.03 million; or

- approve up to $2.46 million using National Heritage category funding in relation to the five recommended large community projects; and $1.99 million using small community category funding to part fund projects from the large community category (with the department recommending the same nine projects for consideration under this option as had been proposed as part of the large community package submitted on 24 August 2009 and not approved by the Minister on that occasion). The total funding recommended by the department for those nine projects was $1.773 million.

5.50 The AHC had not been consulted in determining this package of recommended projects and did not provide independent recommendations to the Minister. The department advised the Minister that this was the case 'as the AHC were provided with the maximum number of projects that they could reasonably review in the time available.' This advice did not address the fact that:

- the AHC had considered two of the five recommended large community projects (as part of the 29 highest quality projects as assessed by the department), with the reason for those projects not being previously recommended not being identified; and
- a further seven projects from the 29 shortlisted projects that had also been considered by the AHC but not able to be accommodated within the available funding had been excluded from this latest package. Those seven projects had collectively sought $5.4 million (which exceeded the total funding remaining available). In this respect, a decision by the AHC that these projects were not suitable for funding had not been recorded and no other basis for their exclusion from consideration in this final round was recorded by the department.

5.51 The department's advice to the Minister also did not acknowledge that the AHC's views had not been obtained in relation to whether partially funding the same nine projects as small community projects remained a higher priority than funding one or more large community projects from the $1.99 million in unallocated small community category funds.

5.52 This situation highlights the importance of the assessment process, including deliberations of advisory panels, for a competitive grant program

resulting in a clear ranking of competing projects based on their relative merits against the program guidelines. This would have provided a sounder basis on which to identify projects for recommendation to the Minister in order to allocate any remaining funding. Further in this respect, despite the projects in this final tranche being recommended for amounts that exceeded the available funding, the department did not provide the Minister with any advice in relation to the relative merits of each project, either within each group or between the two groups of projects.

5.53 On 18 September 2009, the Minister approved funding of $4.47 million, comprising amounts totalling $3.5 million for three of the five recommended large community projects, and amounts totalling $973 000 for five of the nine projects recommended for partial funding as small community projects.

Supplementary funding round

5.54 On 14 December 2009, the department sought the Minister's approval of funding for five additional projects. The department advised the Minister that approximately $600 000 was available for reallocation. A subsequent engineering report for a project approved in the 2008–09 round advised that works budgeted for in the approved application was not necessary. The department further advised that:

> Therefore, to reallocate approximately $600,000 and additional funds that may become available from other possible underspends, the Department has revisited suitable unfunded Large Community grants proposals. These were assessed as suitable under the Jobs Fund gateway criteria and were assessed as 'high priority' or 'priority' heritage projects by external assessors. Five applications have been recommended on the basis that they are considered feasible within the shortened time frame and the requested and/or recommended funding is within the funding amount to be reallocated.

5.55 However, the basis for the department's calculation of 'the funding amount to be reallocated' was not documented. The five projects were recommended to the Minister for amounts totalling $1.12 million, with the expected or potential sources of the total funding required not being identified. Given the uncertainty associated with the source of funds needed to provide the recommended grants, it would have been prudent for the department to have advised the Minister that each approval should be provided on an 'in principle' basis, subject to later confirmation once the quantum of available funds became known. However, this was not the case and the department did

not provide any advice to the Minister regarding the relative merits or priority of each of the recommended projects in relation to the program guidelines.

5.56 In identifying projects for consideration in this supplementary round, the department did not consider unfunded large community projects that had been previously recommended to the Minister but not approved. This was despite the Minister not having recorded reasons for each project not being approved, and there is no evidence of the department having sought to clarify those reasons with the Minister.

5.57 The Minister approved all five projects as recommended on 18 December 2009. However, the approach taken contributed to uncertainty in relation to the status of each project's funding approval, and of the approved funding for the 2008–09 project. Specifically:

- the reduction in funding for the existing project was ultimately negotiated down between the department and the funding recipient to $202 735, compared to the $600 000 advised to the Minister; and
- the department ultimately executed a funding agreement for only one of the five approved projects.

Advice to the Minister

5.58 Between August 2009 and December 2009, the Minister was provided with a series of five briefings recommending projects for approval under the 2009–10 round of the heritage component. A number of the shortcomings in the department's briefing practices discussed in relation to the 2008–09 round were again evident. This was despite the introduction from July 2009 of the CGGs and other elements of the enhanced grants administration framework, with a number of aspects of the department's briefing practices not being consistent with the new requirements. In particular:

- despite the CGGs stipulating that agencies must take appropriate and timely steps to advise Ministerial decision-makers on the requirements of the CGGs, none of the briefs advised the Minister that he was being asked to consider a spending proposal for the purposes of

FMA Regulation 9 or of the obligations that were associated with the role of approver under the financial framework and the CGGs[137];

- where decision-makers agree with the agency recommendation, they are able to point to the agency assessment against the program guidelines as meeting the requirement under Regulation 12 to make a written record of the basis of their approval, but only to the extent that the documented assessment fulfils that obligation. In that respect, the departmental advice provided to the Minister, and underlying documented assessment process, did not satisfactorily record the basis on which each recommended project had been assessed as meeting all threshold criteria set out in the guidelines, and as being the most meritorious in comparison to competing eligible proposals; and
- the approach taken to recommending projects resulted in the documented Ministerial approvals not providing a clear record of funding decisions for some projects. This included instances in which the Minister did not approve projects (some on the basis that the Minister required further information) and the department excluded those projects from further consideration, but without obtaining or documenting advice from the Minister as to whether each project that had not been approved on a previous occasion was considered by the Minister to be unsuitable for further consideration should additional funds become available (such as occurred on two occasions in relation to the large community projects category).

Agency advice on the merits of proposed grants

5.59 As discussed at paragraph 3.5, since 14 December 2007, Ministers have been required to obtain agency advice on the merits of each proposed grant against the relevant program guidelines before deciding whether to approve the grant. Since 1 July 2009, this requirement has been reflected in the CGGs.

5.60 In recommending the first tranche of projects (under the National Heritage, World Heritage and National Trust categories), the department

[137] In three of the five briefs, the Minister was advised that none of the recommended projects was located in his electorate. This related to the requirement under the CGGs for Ministers in the House of Representatives to report to the Finance Minister any grants approved in his or her own electorate. None of the material provided to the Minister for the 2009–10 round (or the 2008–09 round) had identified the Federal electorate in which recommended projects were located.

advised the Minister that all recommended projects had met the Jobs Fund gateway and heritage criteria (which were listed in an attachment to the brief).[138] However, as discussed at paragraphs 4.17 to 4.69, this advice was either not supported by, or was inconsistent with, the documented assessment process under which an assessment against each criterion was not recorded for many projects. In addition, particularly in the case of the gateway criteria, the assessments that were recorded did not clearly identify whether a project had met each criterion or not; and there were significant inconsistencies in the approach taken to assessing projects against the criteria.

5.61 Similarly, both the departmental and AHC advice provided in recommending projects comprised general comments regarding whether the project was supported or not, but did not inform the Minister as to the merits of each project in relation to the published selection criteria, or the value for money offered in terms of expected employment and heritage benefits.

Providing a clear recommendation

5.62 The requirement to provide advice on the merits of a grant application includes providing a clear recommendation to the Minister concerning whether or not funding should be approved. In that context, the CGGs require Ministers to report annually to the Finance Minister on all instances where they have decided to approve a grant which the relevant agency has recommended be rejected.

5.63 As discussed at paragraph 3.59**,** the approach adopted in relation to the 2008–09 round met the requirement to provide a clear recommendation as to which projects should be approved. The same approach was adopted in recommending projects for approval under the small community category (for total funding that was less than the amount available). However, for the remaining four briefs[139], the department adopted a variety of different

[138] The subsequent four briefs recommending projects for approval did not incorporate such a statement, but instead simply advised the Minister that the projects had been assessed by the department for their heritage merits, proponent capacity, project viability, employment impact and the appropriateness of the costings. These briefs also did not advise the Minister of the assessment criteria that had been applied.

[139] In one case, the brief was recommending projects under three categories. In that case, a clear recommendation was provided in respect to which projects should be approved under two categories (for which only those projects recommended for amounts that exhausted but did not exceed the available funding for the relevant category were proposed to the Minister for his consideration). A clear recommendation was not provided in relation to the third category (the National Heritage category for which a total of 20 projects were provided to the Minister for consideration of amounts totaling $14.54 million, compared to the available funding of $11.3 million–see paragraphs 5.22 to 5.23).

approaches, none of which provided the Minister with a clear recommendation such that it would be readily apparent when an obligation to report the approval of a 'not recommended' project would arise. This included:

- the inclusion of 'reserve lists' in the same brief in which specified projects were recommended for approval. A consequence of this approach was that, where the Minister elected to approve one or more projects from the reserve list in preference to one or more of the recommended projects (as occurred on one of the relevant briefs), it was unclear as to whether the Minister had, therefore, approved a project that had not been recommended; and/or
- briefs recommending more projects than could be supported from the available funding, but without providing the Minister with any advice as to the relative merits (or ranking) of those competing projects and, therefore, which projects the department was recommending be approved in preference to other projects included in the same package.

5.64 A further area in which the advice provided to the Minister could have been improved related to projects recommended for partial funding. This is particularly the case in terms of ensuring the advice clearly identified those aspects of the project that would, and would not proceed, within the project scope the Minister was being asked to approve, and the outcomes and value for money impact that would result from the partial funding recommended.

Conclusions

5.65 For the heritage component, the employment objectives of the Jobs Fund were to be achieved through the delivery of projects that also provided positive heritage outcomes. Accordingly, identifying the overall relative merit of each competing project required the department to bring together the outcome of the assessment against the published Jobs Fund threshold criteria and heritage assessment criteria; the views and perspectives of the various expert panels on heritage considerations; and consideration of whether the expected employment outcomes represented value for money.

5.66 The approach adopted by the department went some way towards addressing these various considerations. Specifically, the outcomes of the gateway and heritage assessments were combined to provide an overall rating for each project, but the rating scale used provided little differentiation in terms of the relative merits of the 325 projects considered capable of being

funded. Projects were then, more often than not, considered by the relevant heritage expert panel/s, for formulation of funding recommendations. As a result of the process followed, heritage considerations became the predominant factor in determining whether a project would be recommended to the Minister for approval.[140] In addition, the department did not establish a consistent means of assessing the overall value for money provided by each project in terms of the program objectives.

5.67 The funding recommendations were, in most cases, provided to the responsible Minister by way of letters from the chair of the relevant expert panel and a covering departmental brief (which, in each case, agreed with the panel's recommendations). However, the benefits of bringing different perspectives and assessments to bear were offset by:

- different approaches being adopted to the formulation of funding recommendations in respect to each of the five funding categories, and procedures for re-allocating funding between categories not being established; and
- departmental records not clearly outlining why certain projects were recommended for funding and others were not.

5.68 Between August 2009 and December 2009, the Minister was provided with a series of five briefings recommending projects for funding consideration. In providing the first tranche of projects, the department advised the Minister that all recommended projects had met the Jobs Fund gateway and heritage criteria. However, this advice was either not supported by, or was inconsistent with, the documented assessment process under which an assessment against each criterion was not recorded for many projects. The subsequent four briefs providing projects for the Minister's consideration did not address whether the recommended projects had met the published criteria, and did not advise the Minister of the assessment criteria that had been applied. In none of the briefs did the department advise the Minister as to how each project had been assessed against each of the published selection criteria, individually or in comparison to other projects. Nor was the Minister advised

[140] In particular, whereas projects that had not been demonstrably assessed as meeting the Jobs Fund threshold criteria were not excluded from funding consideration, projects that were assessed as not providing good heritage outcomes were excluded such that, in many cases, they were not assessed in terms of their contribution to the employment stimulus aspect of the program's objectives.

as to the overall value for money offered by each competing project in terms of expected employment and heritage benefits.

5.69 Over the course of 2009–10, the responsible Minister approved 162 of the 181 projects[141] proposed in the various briefing packages provided by his department (of which 158 were contracted by the department). In this context, there were a number of aspects of the department's briefing practices that were not consistent with requirements introduced by the Government with effect from 1 July 2009 (through the promulgation of the CGGs and amendment of the FMA Regulations). Of particular note was that, for four of the briefings, the responsible Minister was not provided with a clear recommendation that identified those projects the department considered should be awarded funding based on an assessment of their relative merits in terms of the published criteria, and those that it recommended be rejected. Reflecting this situation, there were no instances where the responsible Minister was required to report to the Finance Minister that he had approved funding for a project his department had recommended be rejected.

5.70 Against this background, the briefing approach taken did not appropriately support the Minister's capacity to meet the obligation to record the basis for grant approvals in the context of a competitive grant program. This was compounded by the departmental briefs not advising the Minister on the requirements that arise when undertaking the role of decision-maker for a grant program.

5.71 The department excluded from further consideration those recommended projects that had not been approved within particular packages proposed to the Minister, but without obtaining or documenting advice from the Minister as to whether each such project was considered by the Minister to be unsuitable for further consideration should additional funds become available (as occurred on two occasions in relation to the large community projects category). This approach contributed to the lack of transparency regarding the basis on which certain projects had been selected for funding and others had not.

[141] The value of the grants proposed in relation to these 181 projects totalled $58.32 million, compared to the $45.54 million available in 2009–10, of which the Minister approved 162 projects for amounts totalling $45.76 million and the department contracted 158 projects for amounts totalling $45.47 million (as originally contracted), including one project that was contracted for an amount that considerably exceeded the amount identified in the Minister's written record of approval (see footnote 149).

5.72 As outlined at paragraph 3.69, earlier in 2012 in the context of a cross-portfolio performance audit ANAO made a number of recommendations to improve departmental briefing practices in the administration of grant programs which, as evidenced by the audit findings in respect to the administration of the heritage component, are particularly relevant to DSEWPaC.

6. Delivery of financial stimulus

This chapter examines the project oversight arrangements adopted, with a focus on the extent to which the program demonstrably delivered timely financial stimulus.

Background

6.1 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.[142] For the heritage component of the Jobs Fund this was reflected by requiring that funded projects be: 'ready to start'; in an area experiencing high unemployment, a significant rise in unemployment or unemployment vulnerability; and completed within the defined program window to enable all funding to be paid to proponents by 30 June 2010.

6.2 The ANAO examined the:

- project oversight arrangements developed by the department in respect to the projects approved for funding; and
- payments to project proponents, and reporting on project expenditure by funding recipients.[143]

Project oversight arrangements

6.3 The Jobs Fund guidelines outlined that the administering department and proponent would agree to the terms and conditions for approved projects by entering into a legally enforceable funding agreement. There were 195 projects approved by the responsible Minister under the heritage component. Funding agreements were not entered into in relation to four of five projects approved on 18 December 2009 as part of a supplementary funding round.[144] For the remaining 191 projects, funding agreements were

[142] House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government, *The Global Financial Crisis and regional Australia*¸ November 2009, p. 55.

[143] Responsibility for administering approved projects to achieve program objectives was the responsibility of the then DEWHA until September 2010, when that department became DSEWPaC.

[144] See further at footnote 147.

signed for 188 projects and memorandums of understanding (MOU) for three projects[145], involving aggregate funding of $58.2 million.

6.4 Consistent with the stimulus objective of the program, the department worked expeditiously to develop and sign governance documents once project approvals for each round had been finalised. Specifically:

- for the 33 projects approved between 28 April and 18 May 2009 for the 2008–09 round, funding agreements were signed between 1 June and 30 June 2009; and
- funding agreements had been signed by the end of October 2009 for 149 of the 157 projects approved between 31 August and 18 September 2009. The remaining eight agreements were finalised in November 2009 (six), December 2009 (one) and January 2010 (one).

6.5 This level of performance was a significant improvement over that achieved under the other quarantined component of the Local Jobs stream, also budgeted to be completed by June 2010. Specifically, under the bike paths component administered by the then Department of Infrastructure, Transport, Regional Development and Local Government, by the end of December 2009 funding agreements had yet to be signed for 143 of the 166 projects (86 per cent) approved in October 2009.[146]

6.6 However, there were aspects of the contracting process undertaken for heritage component projects that failed to ensure there was appropriate clarity in relation to the terms of the relevant approval[147], each approval was

[145] For these three grants, the funding recipient was an Australian Government entity within the same portfolio despite Australian Government entities not being included in the eligible applicants identified by the guidelines. Consequently, it was not possible for the department to enter into a legally enforceable funding agreement with this funding recipient and, instead, MOUs were entered into for these projects. For the purposes of this report, these documents will also be referred to as 'funding agreements'.

[146] See further in ANAO Audit Report No.27 2011–12, op. cit., p. 134.

[147] For example, as discussed at paragraphs 5.54 to 5.57, a supplementary round conducted in December 2009 resulted in five projects being approved for at least double the amount available at the time (which the Minister was advised involved $600 000 being withdrawn from an existing project). The department did not advise or seek the Minister's approval as to which projects should be prioritised should funds prove inadequate. The department ultimately agreed to withdraw only $202 735 from the existing project, but did not seek the Minister's agreement to it negotiating a final variation that differed from the amount previously advised, but which also exceeded the limit to the department's authority to vary projects (being the lesser of 10 per cent or $100 000). In addition, the department did not base its program administration on a requirement to direct funding that did become available from other sources toward the five projects approved by the Minister in December 2009. Ultimately, only one of the five approved projects received funding, with the department deciding which project would be contracted.

appropriately documented[148], and funding agreements were consistent with the terms of the written approval.[149] This situation does not sit comfortably with the requirements of the financial framework and the CGGs in relation to appropriately documenting decisions to approve the expenditure of public money for grants. Specifically, an important point for agencies to remain cognisant of is that the funding agreement is the means by which the responsible agency gives effect to the decision-maker's approval of a grant under FMA Regulation 9, which the approver is obliged by Regulation 12 to record in writing. The terms of the agreement entered into must be fully consistent with the terms of the written approval.[150]

Specifying project completion dates

6.7 It is reasonable to expect that funding agreements would have been prepared on the basis that projects would commence as soon as their respective agreement had been signed and proceed in accordance with the expected elapsed time outlined in the approved application. The application of those parameters would have resulted in the funding agreements prepared for more than half (52 per cent) of heritage component projects specifying a completion date after the budgeted program end-date of 30 June 2010. However, there was only one project for which this was the case.

6.8 The funding agreements executed in June 2009 for the 33 projects approved in 2008–09 stipulated project completion dates ranging from September 2009 to June 2010. For the majority of projects, this was broadly reflective of the project plan set out in the approved application.

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[148] For example, the approval of additional funding in respect to 20 projects for funding recipients subsequently identified as being non-GST registered entities was inadequately documented such that it is not possible to determine which of those projects were approved for additional funding by the Minister and which by the department, and the associated individual amounts.

[149] One of the projects submitted for the Minister's consideration (see paragraphs 5.47 to 5.53) was recommended for $1 million (compared to the $1.64 million applied for). An email received from the Minister's Office on 18 September 2009 advised the department that the Minister had approved $1.64 million for that project. However, the written record of approval returned to the department on 22 September 2009 indicated that the Minister had approved the project for $1 million. The department did not seek any further clarification and on 29 September 2009 provided the proponent with a funding agreement for $1.64 million for signature.

[150] Since 1 July 2010, this obligation arises under FMA Regulation 8 (previously Regulation 13), with the CGGs stipulating that: 'A grant funding agreement *must* be consistent with the terms of the approval given under FMA Regulation 9, including any conditions of the approval' [*emphasis as per CGGs*].

6.9 By way of comparison, it was common for the funding agreements established for the 157 projects approved under the substantive 2009–10 round to include unrealistic project completion dates when considered in terms of the project timeline proposed by the funding recipient. In particular, there were 64 projects (41 per cent) contracted to be completed in a period that was at least three months shorter than had been proposed in the approved application.[151]

6.10 Delays in project delivery soon became apparent, with about half (49 per cent) of the 191 contracted projects not being completed by the originally contracted completion date.[152] In total, 75 projects (39 per cent) had not been completed by the budgeted program end-date of June 2010.[153]

6.11 Another impact of funding agreements specifying unrealistic completion dates was the need for resources to be allocated to negotiating and signing variations for a significant number of projects, with over half of all funding agreements having been the subject of at least one variation by May 2011 (eight had been varied three times). The most common reason for those variations was delays with progressing the relevant project, with this often being the result of delays in obtaining necessary approvals and/or difficulties in securing contractors or tradesmen within the timeframes provided (which, in the case of projects contracted in September and October 2009, included the traditional shut-down period for the construction industry over the Christmas/New Year period).

[151] By way of comparison, there also 25 projects (16 per cent) contracted under funding agreements that allowed three or more months longer to complete the project than had been proposed in the approved applications (with the additional timeframe provided ranging from three months to 6.75 months). This approach was not desirable in the context of a program that had the stated objective of creating immediate jobs in targeted areas of need through the expeditious delivery of funded projects.

[152] This comprised 26 (79 per cent) of the 33 projects contracted in 2008–09 (involving nine projects that failed to reach completion by their respectively contracted dates ranging between 30 September 2009 and 31 March 2010, but for which the department determined that the relevant works were completed and associated final payment able to made by 30 June 2010; and 17 projects that were incomplete as at 30 June 2010); and 68 (43 per cent) of the 158 projects contracted in 2009–10 (the remaining 90 projects includes 78 projects contracted for completion between 1 June 2010 and 6 June 2010 for which the associated final payment was made by the responsible department by 30 June 2010).

[153] Of those 75 projects, 17 were approved in 2008–09 (52 per cent of the 33 contracted projects) and 58 were approved in 2009–10 (37 per cent of the 158 contracted projects, including one project carried forward as at 30 June 2010 as an un-commenced but ongoing project which was ultimately unable to be delivered and was terminated in March 2011).

Payment and expenditure of economic stimulus funding

6.12 Had funded projects proceeded in accordance with the originally signed funding agreements, all but $75 000 of the $58.2 million in contracted funding was to have been paid to proponents by 30 June 2010. However, in December 2009, the department advised its Minister of the need for an extension to the budgeted program end-date. Approval of a movement of funds was sought in February 2010 as part of the 2010–11 budget process, based on internal departmental advice that: 'On the basis of progress reports received during January [*2010*], we consider that 5 per cent of the $60m Jobs Fund monies are required to fund projects that may be at risk of non-completion by 1 June 2010.' A movement of $3 million in heritage component funding into 2010–11 was agreed in March 2010.

Structuring of contracted project payments

6.13 The CGGs advise that achieving value with public money should be a prime consideration in all aspects of grants administration, which includes managing agency affairs in a way that promotes proper use of Commonwealth resources and adopting a risk management approach. Accordingly, it is important to balance a focus on facilitating expeditious delivery of projects with prudent financial management practices. In an earlier audit of an economic stimulus program, 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
- 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[154] and, in the context of stimulus programs, means that payment data can provide a reliable measure of the extent to which the program has made a substantive contribution to economic

[154] A number of audits have identified the opportunity cost and increased risk to the Commonwealth of accelerating expenditure so as to spend appropriated funds where such payments are made in advance of the needs of the relevant project (ANAO Audit Report No.14 2007–08, op. cit., pp. 504 to 523).

activity over a relevant period, rather than simply transferring funds from the Commonwealth to approved funding recipients.[155]

6.14 The Jobs Fund guidelines stated that funding agreements would generally be structured to provide for:

- an initial payment of between 25 and 50 per cent of the grant, depending on the total funding amount and nature of the project; and
- remaining funds to be paid incrementally upon achievement of negotiated milestones and satisfactory milestone reports.

6.15 Accordingly, the departments responsible for administering each Jobs Fund component had an important role to play in determining the appropriate payment structure for each project, and the nature of the milestones required to be achieved in order to receive each payment. In this respect, ANAO noted a number of aspects of the approach taken to administering funding agreements for the heritage component which indicate that grant funds were paid in advance of project expenditure needs in a number of cases. Specifically:

- to enable $6 million in program funds to be paid in 2008–09, 28 (85 per cent) of the 33 funding agreements executed in June 2009 provided for an initial payment of 50 per cent of the contracted funding to be made in June 2009[156], with the remaining five projects receiving an initial payment of 40 per cent.[157] However, high initial payments were also made in respect to a significant proportion of the 2009–10 round projects, with 50 per cent of contracted funding being paid in relation to 34 (22 per cent) of the 158 projects contracted in 2009–10; and
- the funding agreements were typically structured to provide for the remaining funding to be paid in two instalments, with generic descriptions of the associated milestones being replicated across agreements. As Table 6.1 illustrates, the payment of second grant instalments was not based upon the achievement of defined milestones

[155] ANAO Audit Report No.3 2010–11, *The Establishment, Implementation and Administration of the Strategic Projects Component of the Regional and Local Community Infrastructure Program*, Canberra, 27 July 2010, p. 156.

[156] The individual grants to which this applied ranged between $1.845 million and $32 500.

[157] By August 2009, physical works had yet to commence for 26 (79 per cent) of these 33 projects, each of which had been approved as part of the 2008–09 round on the basis they were ready to start immediately (see paragraphs 3.41 to 3.44).

that related to the physical completion of the relevant project, but rather on provision, to the department's satisfaction, of one or more progress reports. A final payment was due upon completion of all works and provision of a draft final report.

Table 6.1

Milestone requirements set out in funding agreements

Milestone		Requirement	Due date	Payment due upon completion of milestone	
08-09 projects	09-10 projects				
Initial payment	1	• Signing of Agreement.	Date of agreement	For all projects: Between 27% and 50%	
1	2	• Consult with authorities and obtaining approvals as required. • Prepare required documentation for works. • Prepare and submit progress report 1, including a budget, timeline and project plan.	Varied – typically one to two months after funding agreement executed	66 per cent of projects: Between 40% and 55%	34 per cent of projects: Nil payment
2	3	• Commencement of activity (not included in all funding agreements). • Prepare and submit progress report 2.	Varied – typically three to four months after previous milestone[1]	Nil payment[1]	Between 40% and 50%
3	4	• Completion of all works. • Prepare and submit draft final report on all works. • Confirm the number of short and long-term jobs created by the activity and the funding.	Varied up to 15 June 2010[2]	For all projects: Between 5% and 20%	
4	5	• Prepare and submit final report including acquittal of the funding.	Varied up to August 2010[2]	Nil	

Notes:

1. For 11 of the 33 projects approved in 2008–09, the funding agreement did not require the funding recipient to provide a progress report for this milestone.
2. These dates were November and December 2010 for one project contracted in June 2010.

Source: ANAO analysis of executed heritage component funding agreements.

6.16 As Table 6.1 further illustrates, 127 projects (66 per cent) had a payment of between 40 per cent and 55 per cent of the approved grant associated with a milestone that involved provision of a first progress report, typically due within one or two months of the agreement being signed.[158] This milestone involved the proponent reporting on progress in obtaining approvals and preparing works documentation, but did not require the project to demonstrate significant progress or expenditure to date**.** These 127 projects had received initial payments of between 27 per cent and 50 per cent, such that the relevant funding agreements provided that the proponents would be entitled to receive between 80 per cent and 95 per cent of grant funds before physical work was required to have commenced on the relevant infrastructure project (the final payment did not exceed 20 per cent for any project and was five per cent for one project).

Administration of grant payments

6.17 Program expenditure to the end of December 2009 totalled $29.1 million (50 per cent of contracted funding), of which $23.7 million (81 per cent) comprised payments made upon signing of funding agreements. This compared to the $40.7 million (70 per cent) of payments contracted to be made by that time. By the end of February 2010, the shortfall in payments was $12.3 million (25 per cent). This reduced over the following months until, by 30 June 2010, expenditure totalled $55.2 million compared to revised contracted expenditure of $58.2 million (reflecting the $3 million funds movement agreed in March 2010—see paragraph 6.12).[159]

6.18 In this context, the $3 million carry-forward requirement (prepared in early February 2010) was based on an expectation that 33 projects (17 per cent) would not be completed, and therefore unable to receive the final contracted payment, by June 2010. However, the department's estimate of project progress proved to be optimistic, with contracted payments ultimately being

[158] By way of comparison, for 64 projects (34 per cent) a second payment was not due until the proponent had provided a satisfactory second progress report some months after the funding agreement had been signed. The rationale for the varying approaches taken to structuring the timing and quantum of second grant instalments was not documented.

[159] Expenditure over the period 1 March to 30 June 2010 of $17.5 million was more than double the nearly $8 million originally scheduled for that period, and represented 30 per cent of 2009–10 payments. In comparison, less than 14 per cent of program funds were contracted to be paid over this period.

carried into 2010–11 for 75 projects (39 per cent). In that context, the department's administration focussed on maximising expenditure in 2009–10.

6.19 As discussed at paragraph 6.16, a second payment of between 40 per cent and 55 per cent of each grant was to be paid upon acceptance of one or more progress reports. Templates established for use in assessing progress reports assisted in promoting consistency in the administration of funding agreements. The department generally pursued outstanding reports and associated documentation as required. In some cases, the department also initially adopted a cautious approach to approving further payments where projects had yet to commence construction.

6.20 However, once it became apparent that more projects would fail to complete by June 2010 than had been anticipated, progress payments were increasingly made in relation to projects that had either not commenced or were not substantially advanced. In a number of cases, this resulted in grant payments not being aligned with actual project progress. For some projects, payments were approved on the basis that an associated agreement to extend the project completion date would enable the proponent to enter into commitments with contractors to undertake the works. In that context, agreement to extend the availability of funding for a project does not necessitate that funds be transferred ahead of any commitments entered into in reliance of that funding crystalysing into expenditure requirements, with the latter course of action presenting increased risk to the Commonwealth.

6.21 It was also common for further payments to be approved on the basis the proponent had entered into commitments that exceeded the value of the actual and proposed grant payments. While often seeking confirmation of the awarding of tenders and sub-contractual arrangements, the department did not seek to confirm the payment schedules associated with the relevant contractual commitments in order to satisfy itself that the transfer of heritage component funding to the funding recipient was aligned with expected project expenditure.

Conclusions

6.22 Once project approvals for each round had been finalised, the department worked expeditiously to develop and sign funding agreements, with very few delays occurring in agreements being finalised. The department's performance in this regard was a significant improvement

over that achieved under the other quarantined component of the Local Jobs stream, also budgeted to be completed by June 2010.

6.23 In addition, by originally budgeted program end-date 30 June 2010 all but $3 million (five per cent) of contracted funding had been paid to project proponents. This situation indicated that the program had largely provided the desired level of stimulus in the planned timeframe. However, this was not, in fact, the case. Rather, the high level of program expenditure by the budgeted program end-date was achieved by signing funding agreements with unrealistic project completion dates[160] and then making project payments in advance of need.[161] In this respect, there have been significant delays in the delivery of funded projects, as is demonstrated by nearly half of the 191 contracted projects not being completed by the date originally specified in the relevant funding agreement. This included 75 projects (39 per cent) that were not completed by the budgeted program end-date of June 2010.[162]

[160] For example, in respect to the 2009–10 round, there were 64 projects (41 per cent) contracted to be completed in a period that was at least three months shorter than had been proposed in the approved application.

[161] For example, the funding agreements executed in relation to 127 projects (66 per cent) provided that the proponents would be entitled to receive between 80 per cent and 95 per cent of grant funds before physical work was required to have commenced on the relevant infrastructure project

[162] The 75 projects that were incomplete as at 30 June 2010 had been approved for grants totalling $35.5 million or 61 per cent of total contracted funding. By 30 June 2010, the department had paid a total of $32.7 million (92 per cent) of approved funding for those 75 projects. The majority of those projects took an extended period to subsequently reach completion (or in one case termination without ever commencing), with final grant payments not being made until June 2011.

7. Employment and heritage outcomes

This chapter analyses the extent to which the program demonstrably delivered employment benefits in the targeted regions, while also providing positive heritage outcomes.

Introduction

7.1 As noted in paragraph 1.3, the primary objective of the Jobs Fund was to support and create jobs and employment opportunities in communities affected by the global recession and for disadvantaged job seekers through the funded projects. For the heritage component, this objective was to be achieved through the delivery of projects that also provided positive heritage outcomes.

7.2 Accordingly, the ANAO examined the responsible department's:

- development of an evaluation and reporting framework;
- monitoring of employment outcomes, particularly in those communities identified by DEEWR as most likely to be affected by the economic downturn; and
- evaluation of the extent to which positive heritage outcomes have been achieved.[163]

Evaluation and reporting framework

7.3 Maintaining an 'outcomes orientation' is one of the seven key principles for grants administration agreed by the Government. In this context, the CGGs advise agencies that performance information should make clear the extent to which the grant program is contributing to government outcomes.

7.4 There was a strong early focus by the responsible department on establishing a performance framework that would assist in using the outcomes of this $60 million one-off program to leverage future funding for heritage projects. This process was assisted by the involvement of the Heritage Minister's Working Group and the AHC in deliberations relating to implementing the program. At its second meeting on 12 March 2009, the

[163] Responsibility for administering approved projects to achieve program objectives was the responsibility of the then DEWHA until September 2010, when that department became DSEWPaC.

Working Group agreed that there was a need to gather data against key performance indicators in relation to:

- short and long-term economic returns (including employment):
- heritage outcomes, as defined by expert bodies such as the AHC, National Trusts and the FAHS, including in relation to conservation and management benefits or timely intervention to save heritage places through investment in preventative action and maintenance;
- what funded projects would do to raise awareness of heritage;
- visitation and tourism impacts; and
- investment leveraged by the heritage component funding and whether there was community buy-in in relation to funded projects.

7.5 At its 5 June 2009 meeting, the Working Group further agreed that an appropriate framework would be required for evaluating the outcomes generated by funded projects; and there was a need to demonstrate the 'rate of return' on investments made in heritage, including both the economic and social returns to the community. This was reflected in the evaluation and reporting framework developed by the department in October 2009, which stated that:

> ...A reporting and measurement program is vital to assess the social and economic outcomes of these projects. Several reporting mechanisms will be used to capture information on a variety of outcomes, ranging from quantifiable elements such as financial and employment data, to less quantifiable outcomes such as social benefits. The objectives of the evaluation and reporting framework will be to provide, at the end of the 2010–11 financial year, a clear set of indicators of the economic and social contribution that has been made by the investment in heritage places through the Jobs Fund.

7.6 The documented framework identified three program objectives against which performance would be evaluated, involving employment and economic benefits; heritage outcomes; and project delivery (see Table 7.1).

Table 7.1

Heritage component evaluation and reporting framework

Program Objective	Objective Indicator
Program provides short and long-term employment and economic benefits: The overall objective of the Jobs Fund is to "support and create jobs and skills development through projects that build community infrastructure and social capital in local communities" (Jobs Fund Guidelines).	Indicators for this objective will be: • Short-term jobs (less than 6 months duration) provided by funded projects. • Long-term jobs (more than 6 months duration) provided by funded projects. • Expenditure on materials for funded projects. • Leverage provided by funding (cash and in-kind contributions from other sources). • Improved visitation to heritage place. • Improved long-term economic opportunities for heritage place.
Program strengthens the role of heritage in the community: The heritage component of the Jobs Fund is intended to build awareness of the benefits and values of heritage in the community, while providing positive heritage outcomes for the funded heritage places.	Indicators for this objective are: • Works contribute to the heritage values of funded heritage places. • Works are consistent with the principles of the Burra Charter. • Improvements in community use of or involvement in funded heritage places. • Improvements in community awareness of heritage places. • Increased economic opportunities for heritage places.
Program expends $6 million in 2008–09 and $54 million in 2009–10: The program is also expected to meet best practice in terms of contract management and program expenditure.	Indicators for this objective are: • Project milestones completed and on time. • Projects completed within budget. • Projects meet objectives stated in Funding Agreements.

Source: Heritage Projects (Jobs Fund): Evaluation and Reporting Framework.

Employment outcomes

7.7 In recommending that the responsible Minister approve the 191 contracted projects, the department had indicated that, in aggregate, these projects would create, or result in the retention of, at least 3041 positions (comprising 1647 short-term and 994 long-term jobs and 400 work experience

or traineeships).[164] The evaluation and reporting framework stated that the following data would be collected for each project:

- labour cost for the duration of the project;
- the number of full-time equivalent (FTE) positions created as a result of the project, categorised as skilled, unskilled, training/apprentice, professional/administrative, and other positions; and
- whether those employed as a result of the project lived locally, or elsewhere.

7.8 The stated aim of collecting this data was 'to ascertain whether these projects met the fundamental purpose of the Jobs Fund, in creating employment.' In that context, ANAO identified a number of aspects of the reporting methodology applied that, collectively, significantly diminished the capacity for the performance information collected to provide a reliable measure of the employment generated by funded projects (as opposed to contributing to the general level of economic activity in the relevant location).

Monitoring of actual employment outcomes

7.9 For completed projects, funding recipients were required to provide final confirmation of the estimated number of positions created or retained as a result of the project, and the associated total hours worked.[165] Each reported position was to be identified as either short-term (up to six months) or long-term (longer than six months), and categorised as skilled, unskilled, professional or administrative (including project management), trainee/apprenticeship, or work experience. The positions reported for each project were aggregated as a measure of the employment outcomes achieved through the program.

[164] In recommending 20 (10 per cent) of those 191 projects, the department did not provide the Minister with advice as to the number of jobs expected to result (in 14 cases, this was due to the applicant having failed to quantify any employment outcomes; in the remaining six cases, the job estimates included in the application were omitted from the advice provided to the Minister). There were also a number of cases in which the department recommended that projects be awarded partial funding, but either without revising the expected employment outcomes to reflect a reduced project scope, or advising the Minister of a revised employment outcome without documenting the basis for the revised estimate. For a number of other projects, the departmental assessment material misstated the outcomes proposed in the relevant application, most frequently due to excluding jobs proposed to be retained, as opposed to created.

[165] Notwithstanding the importance of Jobs Fund projects supporting jobs and employment opportunities, heritage component funding agreements did not identify achievement of the expected employment outcomes that had informed the decision to award funding as a project milestone or required deliverable.

7.10 The reporting provided to the department identified that the 191 contracted projects had created or retained 4182 positions (3183 short-term and 659 long-term jobs and 340 work experience or traineeships).[166] Reported outcomes were within ten per cent of expectations for 17 (10 percent) of the 171 projects for which quantified advice on expected employment outcomes had been provided to the Minister. Of the remaining 154 projects:

- reported positions exceeded the expected outcomes advised to the Minister by more than ten per cent for 111 projects (72 per cent). The reported positions were at least double those expected for 77 of those projects, including eight projects for which reported positions exceeded the expected outcomes by 40 positions (those eight projects received grants of between $105 000 and $1.16 million); and
- reported positions were more than 10 per cent lower than expected outcomes for 43 projects (28 per cent), including 15 projects for which reported outcomes were at least half of those expected (those projects received between $27 000 and $1.8 million).

7.11 The template for assessing final reports provided by funding recipients required the department to identify whether the reported outcomes were in line with the expectations outlined in the application. However, the department did not investigate instances where significant variances or anomalies were evident so as to be assured the reporting could be relied upon.

Comparability of reported outcomes

7.12 A key aspect of the reporting methodology adopted was that funding recipients were advised to identify each person involved in undertaking tasks on a project as a discrete 'position' created or retained as result of the funded project. Consequently, reported positions ranged from personnel engaged on a project on a full-time basis over an extended period of time to incidental involvement by a tradesman over a matter of hours. A common means of translating diverse information of that nature into a comparable basis for

[166] Funding recipients were also asked to report on volunteer time contributed to the project which, while a measure of the community involvement, is not relevant to measuring employment. Accordingly, ANAO has omitted volunteers from this analysis. However, the departmental spreadsheet used to aggregate reported outcomes included volunteer positions in the 'actual jobs' figure calculated for reporting to DEEWR (727 volunteer positions at the time of fieldwork). To the extent volunteer positions have been included in such reporting, it will have overstated the employment stimulus generated by the program.

aggregating reported positions within and across projects is to develop a full-time equivalent (FTE) measure for each position.

7.13 As noted at paragraph 7.7, the evaluation and reporting framework developed for the heritage component stated that the data obtained would include the number of FTE positions created as a result of each project. As further noted, it was stated that the aim of collecting this and other data relating to jobs was to 'ascertain whether these projects met the fundamental purpose of the Jobs Fund, in creating employment'. Reflecting this, in addition to asking funding recipients to report on the number of positions created or retained, the department sought information on the estimated total hours worked by those positions. This is a sound approach, and better than that proposed to be adopted by the other Jobs Fund administering departments.[167]

7.14 Despite having sought such information, it is apparent that the department had not prepared a methodology for applying the data. On 1 September 2010 (two months after the original program completion date for the heritage component), the responsible department sought advice as to whether DEEWR had a formula it was applying for converting reported hours into an equivalent measure of the number of jobs supported (this issue had arisen in the context of reporting jobs outcomes to DEEWR as lead agency). The department advised that it had identified the need for such a formula as some projects had been reporting jobs outcomes in terms of hours worked only. DEEWR advised that it did not have a formula for converting hours into jobs, as the approach adopted by that department was to count the number of jobs produced by each project (which may have been for a day, a week or long-term), with the only differentiation made in reporting relating to whether positions represented jobs, work experience, or apprenticeship positions.

7.15 The reported positions ultimately aggregated by the responsible department as representing the actual employment outcomes from completed heritage component projects included some personnel engaged on a project on

[167] The funding agreements used for the remaining components of the Jobs Fund provided for funding recipients to report on actual job outcomes on the basis of full-time (35 hours a week or more) and part-time (less than 35 hours a week) jobs on the payroll (as short-term or long-term). However, the extent to which such information was ultimately obtained and/or taken into account to provide a reliable basis for evaluating the employment stimulus achieved through funded projects varied significantly—see Audit Report No.7 2011–12, op cit., pp. 200 to 203 for the IEP stream, and Audit Report No.27 2011–12, op. cit., pp. 143 to 145 for the bike paths component. This aspect of the general component of the Local Jobs stream by DEEWR will be examined in a performance audit of that component that is currently underway.

a full-time basis over an extended period, particularly relating to the use of specialist heritage restoration skills. However, as is typically the case with construction projects, the majority of personnel involved related to subcontracted tradesmen, service providers and incidental support staff who were not engaged either full-time or for an extended period on the funded works. There were also instances where the same individual was reported as relating to a retained job for a number of projects, suggesting this person's job had been retained multiple times as a result of concurrent Jobs Fund projects.

7.16 However, the department did not utilise the associated hours worked data also collected to formulate performance information on an FTE-basis in respect to any project or for the program as a whole, or to otherwise develop a means of establishing a reliable basis for aggregating employment performance information across projects. This represents a missed opportunity and contributed to a diminution in the effectiveness of the performance information collected as a measure of the employment stimulus generated as a result of funded projects.

Achievement of targeted employment stimulus

7.17 The program guidelines required that, in order to be funded in 2009–10, projects must have been located in an area of high unemployment, increasing unemployment or vulnerability (gateway criterion one). However, as previously noted, the assessment approach adopted by the department did not result in that criterion operating as an effective eligibility filter such that heritage component funding would be targeted at areas most in need of employment stimulus. This outcome is illustrated by Table 7.2, which identifies that, of the positions reported as having been created or retained as a result of heritage component projects funded in 2009–10, just over half (57 per cent) were located in a Priority Employment Area, or in a below average or poor area in terms of employment vulnerability. By way of comparison, 42 per cent of the reported employment stimulus occurred in areas with strong or average labour markets.[168]

[168] The remaining one percent related to two projects on Norfolk Island (which was not categorised by the Regional Matrix due to being located offshore) and one project in an area for which the Regional Matrix had identified the available data as being unreliable due to statistical volatility.

Table 7.2

Location of 2009–10 projects' reported employment outcomes

Nature of labour force region of project location[1]	Reported employment outcomes				
	Short-term jobs (%)	Long-term jobs (%)	Work experience (%)	Traineeship (%)	Total (%)
Located in a Priority Employment Area	906 (37%)	165 (29%)	53 (52%)	81 (37%)	1205 (36%)
DEEWR Regional Matrix categorisation for projects not in a Priority Employment Area:					
Below average or poor labour market	474 (19%)	194 (35%)	7 (7%)	47 (22%)	722 (21%)
Average or strong labour market	1074 (43%)	197 (35%)	42 (41%)	88 (40%)	1401 (42%)
Not reliable, or not identified	19 (1%)	6 (1%)	0 (0%)	2 (1%)	27 (1%)
Sub-total: Non-PEA projects	***1567 (63%)***	***397 (71%)***	***49 (48%)***	***137 (63%)***	***2150 (64%)***
Total	**2473 (100%)**	**562 (100%)**	**102 (100%)**	**218 (100%)**	**3355 (100%)**

Note: See Note 2 to Table 4.3.

Source: ANAO analysis of DSEWPaC data.

7.18 In relation to evaluating whether funded projects had achieved the targeted stimulus intended, the reporting and evaluation framework established for the heritage component stated that the data collected for each project would include whether those employed as a result of the project lived locally, or elsewhere (see paragraph 7.7). However, the department did not seek this data from funding recipients as part of the reporting process.

7.19 In that context, as noted at paragraph 4.47, the department based its assessment of some projects located in an area with strong or average labour markets on claims set out in the relevant application advising that the project would use labour drawn from areas with higher levels of unemployment. Had the department obtained information about this aspect of project delivery as it had proposed to do, it would have been in a better position to evaluate the extent to which the premise on which the recommendation for funding was based actually came to fruition.

External evaluation

7.20 The department engaged consultants to undertake two evaluations of the heritage component, one of which was focused on the achievement of employment-related objectives. This evaluation considered five projects (2.6 per cent of contracted projects) that were either visited or telephoned, and the report is available on the department's website.[169] The final report noted that:

> Most respondents believed there was only a tenuous link between their Heritage Jobs Fund funding and Federal Government initiatives aimed at minimising the impact of the GFC in local areas. Many of the respondents focused their discussion on the project's heritage impact not economic one. For some, generating employment or training activities was discussed as being almost secondary. In fact one respondent suggested that agreeing to the employment intentions of the Heritage Jobs Fund was predominantly a means to gaining the funding for completing the Heritage project.
>
> The concept of the Heritage Jobs Fund initiative was welcomed. Injecting funds into communities for heritage projects provided opportunities for programs to eventuate that would otherwise not have come to fruition (or at least not for many years). The programs were seen as having a clear benefit both to the local communities and heritage sites.
>
> In all cases, the perceived benefits of the Heritage Jobs Fund were believed to extend beyond those immediate 'statistical' outcomes to broader community benefit; mainly the development of tourism, education, landscape and future employment and benefit to a heritage site / program that was much needed in the area.

7.21 Nevertheless, the restricted scope of that evaluation limits its capacity to effectively report on the employment outcomes generated on a program-wide basis.

Evaluating heritage outcomes

7.22 At an early stage in the program's implementation, the department developed a strategy for producing a series of case studies of funded projects to illustrate the benefits of, and story behind, the heritage component. Since August 2011, 36 project case studies have been available from the DSEWPaC

[169] http://www.environment.gov.au/heritage/programs/jobs-fund/pubs/jobs-fund-evaluation-sweeney.pdf [accessed 15 August 2012].

website. Each case study provides an overview of the project; information on the heritage significance of the relevant site; updates on project progress, as reflected in the progress reports provided to the department; and a description of the benefits of the project. The case studies are largely qualitative in nature, and focussed on the individual project involved.

External evaluation

7.23 To complement that process, the department commissioned an external evaluation of program heritage outcomes, which was completed in August 2011. The purpose of the evaluation was to provide the department with a source of information concerning:

- the effectiveness of the program in delivering the heritage outcomes reflected in the four issues (or criteria) identified in the guidelines to be considered in assessing projects' heritage outcomes;
- the social and economic impacts (including potential impacts) of heritage grants (funded and un-funded) on the general community, as well as the level of unmet demand; and
- opportunities for improving and widening future Australian Government involvement in heritage initiatives.[170]

7.24 Due to the limited aggregated program data available from the department[171], the evaluation focused on the collection of essentially qualitative data through a desktop review of a sample of 33 completed projects (representing 17 per cent of contracted projects), with site visits also being undertaken in relation to 14 of those 33 projects. The evaluation also involved desktop reviews and interviews with a sample of 10 unsuccessful applicants (around two per cent), and discussion with departmental staff responsible for administering the program. The evaluation report stated that the essentially

[170] The summary of the evaluation report is available from the department's website (see http://www.environment.gov.au/heritage/programs/jobs-fund/pubs/jobs-fund-evaluation-courage.pdf [accessed 29 July 2012]. This evaluation did not include an examination of the jobs creation data or the immediate impact of heritage grants on direct employment.

[171] The evaluation and reporting framework stated that information would be collected in relation to: visitation figures for 2008–09 and 2009–10 (where applicable), which was intended to provide baseline data for comparison with future years' figures; and a statement from each funding recipient on how the project contributed to the heritage values of the site, which was identified as 'a fundamental aim of providing funding to these projects.' The reporting templates completed by proponents included both aspects, but reported data was not collated by the department to support analysis of program outcomes.

qualitative data collected through those processes was based on a cross section of project stakeholders' experiences and perceptions.

7.25 Based on the 33 projects examined, the evaluation concluded that: ,

> As many projects in the Jobs Fund Program have only recently been completed, it will still be some time before outcomes from the Program can be properly assessed; however, this evaluation has identified strong potential and probability for a range of positive social and economic impacts to be realised.
>
> In talking to the stakeholders involved, it was clear that the Program has been perceived as a very positive initiative, which has engaged communities with a depth of passion and commitment, both for their own local heritage projects, as well as heritage more generally.
>
> The evaluation identified a range of possible areas for further Australian Government involvement in heritage projects, and suggestions for improvement to programs including more emphasis on promotional aspects as well as increasing time frames for the duration of heritage projects beyond 12 months.
>
> Overall, the evaluation concluded that the program was successful in achieving its heritage objectives and that continuation of a diverse heritage program such as the Jobs Fund Heritage Program would help to contribute to government heritage goals, and maintain the level of community engagement and interest that has been generated.

Evaluating the economic and social impacts of funded projects

7.26 As noted at paragraphs 7.4 to 7.5, the Heritage Minister's Working Group had agreed that there was a need to demonstrate the 'rate of return' on investments made in heritage, including both the economic and social returns to the community. Reflecting this, as also noted, the evaluation and reporting framework developed for the heritage component by the department stated that the objectives of the framework were to provide a clear set of indicators of the economic and social contribution that had been made by the investment in heritage places through the Jobs Fund (see paragraph 7.5).

7.27 The question of identifying and measuring the social and economic impacts achieved as a result of projects funded through the heritage component was considered in various ways under all three of the external evaluation's terms of reference. In this respect, the evaluation identified a range of realised and potential economic and social impacts as resulting from heritage component funded projects, which varied depending on the nature of the project, the amount invested and the timeframes required for impacts to be

realised. In this latter respect, the evaluation also reported that site visits had highlighted that, as at August 2011 (when the evaluation was undertaken), it was too early to gauge the extent of full impacts.

7.28 The evaluation also noted that the extent of the impacts ultimately realised through funded projects would depend upon the strength of the project promotional activities undertaken in respect to funded sites. This was the one aspect of the heritage outcomes detailed in the program guidelines that the evaluation identified as not having been successfully met due to not being given sufficient priority in project management and delivery by some grant recipients. In this respect, the evaluation also reported that better practice examples identified in site visits had evidenced that strong promotions can maximise positive heritage, social and economic impacts for the project and the community.

7.29 However, notwithstanding the early focus on the need for an appropriate framework for evaluating outcomes, the evaluation report also identified that, on the whole, projects did not maintain robust measures around social and economic impacts, either before or after project works. The report further stated that:

> ...the means by which social and economic impacts could be measured was limited; with little information on, for example, increase in visitor numbers not just to the site but also to the local community or region. There were very few examples of projects using this kind of data strategically. Further details regarding tourism, visitor experiences, income and expenditure before and after project commencement was rare. There were no examples of community perception data regarding social or economic impacts.[172]

7.30 The evaluation report observed that part of the reason for the failure of funding recipients to maintain robust measures around the social and economic impact of funded projects was the 'scarcity of clear measures around performance of heritage projects, both generally and for this specific program.' In this respect, the report found that:

> ...there needed to be greater clarity around the desired outcomes of the Jobs Fund Heritage Program and the link with program design. This in turn could have informed development of performance measures to indicate the success

[172] The evaluation also reported that: 'It was apparent that in many of the sites visited, the impacts of a Jobs Fund Heritage project could not be isolated from other works done previously or concurrently.'

of the program...in order to better determine whether the overall program has been successful, there needs to be consistent collection of performance information at the project level. In this program, there were no laid down measures (and it is a problematic area for heritage projects generally). A more consistent approach to performance information at both the program and project levels is an opportunity for improvement in the development of future programs.

7.31 The report suggested that heritage sites should consider collecting a range of useful baseline data (for example, visitor numbers, running costs and satisfaction levels) that would enable them to better measure the impacts of any future projects, or better manage their site.[173] The report also provided the department with a number of recommendations relating to the framing and conduct of future heritage grant programs, including aspects that could be undertaken differently in the context of a program focussed specifically on fostering and promoting heritage as opposed to a program based on delivering timely, targeted and temporary economic stimulus.

Conclusions

7.32 The department adopted a strong early focus on establishing an evaluation and reporting framework for the heritage component. The documented framework identified program objectives against which performance would be evaluated, and performance indicators for each objective.

Employment outcomes

7.33 The department's evaluation and reporting framework recognised that the fundamental purpose of the Jobs Fund was to create and retain employment. In this context, whilst recognising that projects' anticipated employment outcomes should be treated with some caution, the employment generated by funded projects was expected to be significant. However:

[173] In this respect, the department had asked funding recipients to complete a pre-project survey which sought information relating to the existing condition and operations of each site and the benefits anticipated to result from undertaking the project. The information collected was reliant on self-assessment and was largely qualitative in nature, but did seek information in relation to factors such as visitor numbers and operating costs. However, there was little indication of the department having subsequently drawn upon the completed surveys in evaluating project outcomes. In September 2012, DSEWPaC advised ANAO that: 'The department provided surveys to external consultants to use in reviews but no further internal evaluation has been undertaken due to lack of resources.'

- shortcomings existed in the assessment of candidates for funding and, as a result, program funding was not focused on those areas identified as having the greatest employment stimulus needs[174];
- notwithstanding the importance of Jobs Fund projects generating employment, funding agreements did not identify achievement of the expected employment outcomes that had informed the decision to award funding as a project milestone or required deliverable; and
- the department did not follow-through on its planned approaches to obtaining and analysing relevant data to assess the extent to which the program generated employment through funded projects.

7.34 In these circumstances, there is no reliable data available on actual employment outcomes achieved through heritage component projects.

Heritage outcomes

7.35 Through the heritage component, 191 projects were contracted to provide positive heritage outcomes in relation to National Heritage-listed places, historic properties managed by the National Trust, heritage places of local, state or national significance, and natural heritage projects focussed on places listed in, or being assessed for inclusion in, the World Heritage List. For contracted projects, the final grant payment was due upon completion of all works, with all final payments made by June 2011.

7.36 The Heritage Minister's Working Group had agreed that there was a need to demonstrate the 'rate of return' on investments made in heritage, including both the economic and social returns to the community. Reflecting this, the stated objectives of the evaluation and reporting framework developed for the heritage component were to provide a clear set of indicators of the economic and social contribution that had been made by the investment in heritage places through the Jobs Fund.

7.37 In that context, the department took a number of steps to evaluate in qualitative terms the achieved heritage outcomes. Of particular note was an external evaluation completed in August 2011. Based on the available data (which had some acknowledged limitations), the evaluation concluded that the

[174] As a result, 43 per cent of the reported employment stimulus occurred in areas with strong or average labour markets rather than Priority Employment Areas or below average or poor labour markets.

33 projects examined had been successful in meeting most of the heritage outcomes detailed in the program guidelines, but that it was too early to gauge the extent of the desired social and economic impacts.

7.38 The report also included suggestions to enable better measurement of the heritage impacts of any future funded projects, and made a number of recommendations relating to the framing and conduct of any future heritage grant programs. In September 2012, DSEWPaC advised ANAO that the department had accepted the recommendations made in the evaluation report and incorporated them where appropriate in subsequent related programs.

Ian McPhee
Auditor-General

Canberra ACT
27 November 2012

Appendices

Appendix 1: Agency response to the proposed report

Australian Government
Department of Sustainability, Environment, Water, Population and Communities

Ref: C2012/13489

Barbara Cass
Group Executive Director
Australian National Audit Office
GPO Box 707

CANBERRA ACT 2601

Dear Ms Cass,

I refer to your letter of 10 October 2012 seeking the Department's response to the ANAO's proposed audit report on the Establishment, Implementation and Administration of the Quarantined Heritage Component of the Local Jobs Stream of the Jobs Fund.

The department's formal response is provided in this letter below for inclusion in your final report.

Formal Response:

The Department (DSEWPaC) agrees with the two audit recommendations and appreciates the opportunity to provide comment. The Department recognises the need to include the relevant details in program guidelines, and ensure a rigorous approach to assessment parameters.

The key findings of the report largely relate to processes and events in the period from 2008 to mid 2010. Indeed, in 2010 the Department itself identified the need to substantially strengthen many of its internal processes and governance arrangements. Since then, the Department has considerably improved the development and evaluation of its grant programs with the implementation of a new and more robust grants administration framework with dedicated resources.

In June 2011 the department established a Grants Administration Framework which comprises comprehensive administrative tools for staff to provide policy and legislative guidance and better practice on how granting activities should be properly developed and managed.

The department has established a Grants Management System (GMS) that supports program managers in their delivery of grant funding outcomes including processes for application, eligibility, assessment, merit, recommendation, approval, outcome notifications, funding deeds and contracts, milestones and targets, payments, progress reporting and acquittal processes. The design and use of the GMS is prescribed in the Grants Administration Framework.

To support improvements in its business processes, the Department has recently upgraded its project management framework to contemporary industry standards, and has established contemporary risk management framework and reviews.

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The Portfolio Project Management Office was formally established in May 2012 to provide support, Project Governance guidelines, quality assurance and reporting services, training and mentoring services. The Portfolio Project Management Office provides a suite of online tools such as the Project Management Framework, Project Library, tiering questionnaire and all related policies and guidelines and tools and templates.

The Department has also previously responded to and implemented recommendations from the ANAO's audit on the Development and Approval of Grant Program Guidelines, and has adopted a continuous improvement approach to its grants administration.

The heritage component of the Local Jobs Stream of the Jobs Fund provided funding to190 projects as part of the government's stimulus package in response to the global financial crisis and created enduring heritage benefits across all states and territories.

Attachment A to this letter includes the department's response to each of the report's two recommendations. I thank you and your team for the cooperative engagement with this Department in the preparation of the report.

Yours sincerely

Paul Grimes

Secretary

6 /11/2012

Appendix 2: Comparison of original criteria for $60 million heritage funding with published Jobs Fund criteria

Selection criteria approved by responsible Minister 9 March 2009	Selection criteria in Jobs Fund guidelines published 18 April 2009
	Threshold criteria:
	Gateway criteria (mandatory to meet all three):
(iii) Deliver direct employment and economic benefits in both the short and long term, with priority given to projects that provide jobs for local businesses and communities and opportunities for youth (to the maximum extent consistent with the achievement of good heritage outcomes).	Projects must be in areas experiencing high unemployment, a significant rise in unemployment or vulnerability. (mandatory gateway criterion 1)
(ii) Be 'ready-to-go' within six months of the grant being awarded, and completed in eighteen months.	Projects must be viable and ready to start. (mandatory gateway criterion 2)
	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: funding granted under the quarantined heritage component will not extend past 30 June 2010.) (mandatory gateway criterion 3)
No equivalent criterion.	**Target areas (must address at least one):** 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.
	Heritage assessment criteria:
	In addition to demonstrating how the project delivers employment and economic benefits that are supported by local communities, proponents will also need to demonstrate that the project will deliver positive heritage outcomes. Issues which will be taken into consideration in assessing heritage outcomes include**:**
(i) Deliver clearly positive heritage outcomes that are supported by local communities.	1. Does the project contribute to the heritage values of a place, including conservation, protection, adaptation or interpretation works?

Selection criteria approved by responsible Minister 9 March 2009	Selection criteria in Jobs Fund guidelines published 18 April 2009
	2. Is the project consistent with the principles of the Burra Charter, management plans currently in place, and state, territory and Commonwealth legislation?
(iv) Have a strategic benefit in raising public awareness and demonstrating how heritage can benefit the economy.	3. Does the project provide ongoing direct and indirect social and economic benefits in the community, such as by increasing tourism, or increasing the appropriate utilisation/value/rental returns of heritage properties?
	4. To what extent does the project contribute to one or more of the priority heritage themes identified by the Australian Heritage Council, and include elements designed to promote awareness of the activity, and of the social and economic value of the heritage property?
(v) Preferably include co-contributions (in cash or in kind) from project proponents or partners.	No direct equivalent criterion. The guidelines advised that within each of the four target areas preference would be given to projects which demonstrated one or more of a number of listed characteristics, one of which was 'include a contribution of funds, or in kind contributions to supplement the amount sought in the project proposal'. However, 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.
(vi) Applicants must have a demonstrated capacity to deliver the project.	**Due diligence and risk assessment:**
	'Due diligence and risk assessment' section of guidelines states that: Projects will be subject to due diligence and risk assessment by the Departments as appropriate. Important aspects that may be considered in relation to the overall viability of the project include: cost effectiveness; ability to complete project on time and in budget; organisation financial viability; sustainability; independent viability assessment; Insurance and compliance.

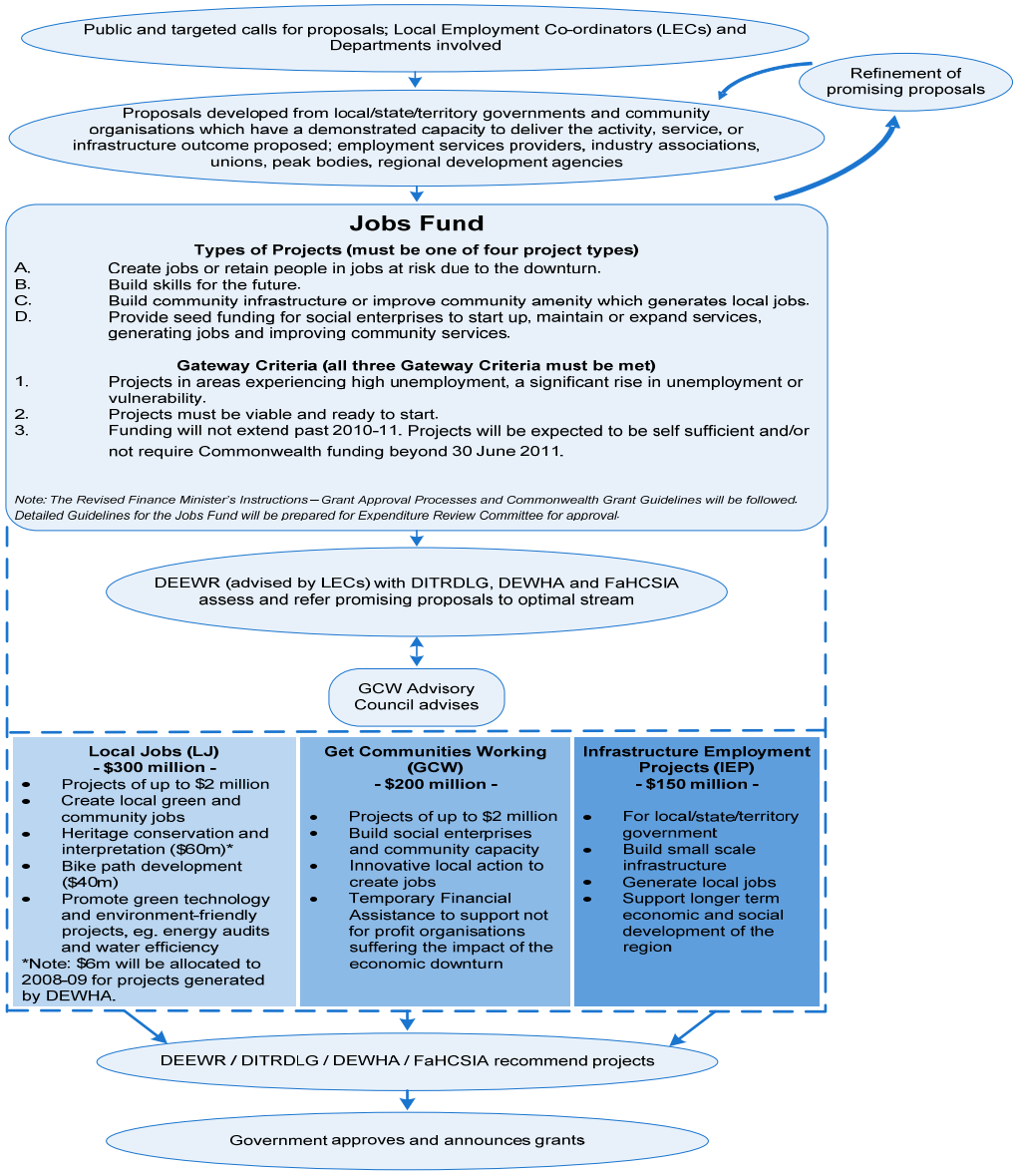
Source: ANAO analysis of Jobs Fund guidelines and DSEWPaC records.

Appendix 3: Application and selection approaches approved on 9 March 2009

Funding Category	Selection approach recommended by the responsible department
National Heritage-listed buildings	This funding component will target places that are currently included in the National or Commonwealth Heritage Lists, or places that the AHC has decided may have National or Commonwealth Heritage values. The Department will directly approach the managers of National and Commonwealth Heritage places for proposals, and will develop a shortlist of appropriate projects for your consideration in consultation with the AHC.
National Trust projects	For this component, we suggest that the Australian Council of National Trusts be asked to seek applications from the state National Trusts and then submit a shortlist of projects for review by the AHC and decision by you.
Community grants–large projects	This funding component will support high profile and high value projects that relate to places that are not on the National Heritage List or managed by the National Trusts. We suggest that the states and territories be asked to submit proposals for projects, allowing for at least $1 million per state and $300 000 per territory. Projects will be reviewed and shortlisted by the AHC and the final decision will be made by you.
Community grants–small projects	This component will provide a competitive public grants process targeted at small community heritage projects. Given that there is significant potential for this component to be oversubscribed, one challenge will be to minimise applicants' investment of time in preparing applications that are ultimately not funded. We will address this issue by inviting brief expressions of interest of less than one page, and then inviting more detailed applications for those projects that clearly meet the selection criteria. In line with a proposal arising from the Heritage Minister's Working Group, the resulting applications will be reviewed by an expert committee comprising representatives of the Federation of Australian Historical Societies, the Australian Council of National Trusts, the Australian national chapter of the International Council on Monuments and Sites (ICOMOS) and the Collections Council of Australia. This committee will be asked to shortlist the best proposals and to provide you with funding recommendations.
Natural heritage projects	We suggest that this component of the funding be limited to World Heritage properties, particularly given that the Caring for Our Country program has significant funds available to support natural heritage projects around Australia. This would enable the Government to deal with particular areas of concern regarding some World Heritage properties, such as the Tasmanian World Heritage Wilderness Area, Fraser Island and Kakadu. Applications would be sought direct from World Heritage area managers for review by the AHC, and advice on potentially suitable projects.

Source: Implementation arrangements for the quarantined heritage funding recommended by the responsible department on 29 February 2009 and approved by the responsible Minister on 9 March 2009, prior to the decision to incorporate the heritage funding into an integrated Jobs Fund.

Appendix 4: Jobs Fund process diagram included in published guidelines



Source: Jobs Fund Guidelines, April 2009.

Appendix 5: Example of a completed Jobs Assessment template

1. This appendix illustrates the template used by the department to assess projects against the Jobs Fund threshold criteria. As is discussed at paragraphs 4.27 to 4.58 of this audit report, shortcomings identified in relation to both the design and implementation of this template included that it did not:

- provide for assessment against the Jobs Fund target areas;
- identify the matters that should be considered when assessing a project against each gateway criterion, the rating scale that was to be used and how the appropriate rating was to be determined; or
- require a definitive conclusion to be recorded as to whether the project met each of threshold criteria and was, therefore, eligible to be considered further. In that respect, this example illustrates the approach taken under which projects identified as being located in a strong employment area were not excluded from further consideration despite not meeting the terms of the unemployment gateway criterion (the illustrated project was recommended and approved).

JOBS ASSESSMENT

PROJECT NO: 0095

PROJECT NAME: Sacred Heart Building Consv + Adaptive re-use

1 - Project Budget 100K contingency? No co-contribution + inkind is current staff

2 – Project Plan Well scoped, realistic time frames, some works done concurrently
NO QUOTES PROVIDED

3 – Business Plan ✓ JF funding for Part B - Stage 1 - bring up to Aust Building codes + demolition of modernist interventions.
Fire safe systems? (limited)

4- Project Linkages

Criteria 1 Strong - 40 short, 17 long, 4 work exp + 8 traineeships created

Criteria 2 1 July 09

Criteria 3 31 May 10

Overall assessment May not be able to be completed in timeframe, large number of jobs created but very low Co-contributions in strong employment areas. Good overal protection + adaptive re use project but expensive.

Source: DSEWPaC assessment records.

Appendix 6: Example of a project for which the heritage criteria assessment template summary page was completed only

HERITAGE CRITERIA ASSESSMENT

Jobs Fund Number: 2616

Project Title: Ainslie Arts Centre conservation works

Name of Heritage Place: Ainslie Arts Centre

Applicant: Chief Minister's Department, ACT Government

OVERALL ASSESSMENT

Capacity

Is the project scope of works realistic (consider the project timeline, budget and technical expertise available) and able to be completed by 30 June 2010?
Budget and timeline are appropriate. Work will be supervised by ACT Heritage Office.

Suggested amendments to proposal/ further information required

Specify any ESSENTIAL further information required before a funding decision can be made.

Specify any elements of the proposal which are not supported. Provide a brief reason why they should not be supported.

Assessment against heritage criteria

Criterion 1	High Priority/Suitable/Not recommended
Criterion 2	Consistent/not consistent
Criterion 3	High Priority/Suitable/Not recommended
Criterion 4	High Priority/Suitable/Not recommended

Recommendation

Recommendation
High priority/Suitable/Not recommended

Overall comment
The Ainslie Arts Centre occupies the former Ainslie Public School, built about 1927, and listed on the ACT Heritage Register. The Centre provides rehearsal, tuition and performance space for community and youth music. The Centre is used by a range of community music organisations as well as musical groups and individuals. Funds are sought to repair and restore roofing and windows to prevent ingress of water during heavy rain.

Source: DSEWPaC assessment records.

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