

The Auditor-General
Audit Report No.21 2009–10
Performance Audit

Administration of the Water Smart Australia Program

**Department of the Environment, Water,
Heritage and the Arts**

National Water Commission

© Commonwealth

of Australia 2010

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Canberra ACT
4 February 2010

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of the Environment, Water, Heritage and the Arts and the National Water Commission in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit and the accompanying brochure. The report is titled *Administration of the Water Smart Australia Program*.

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

Yours sincerely

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

Ian McPhee
Auditor-General

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

AUDITING FOR AUSTRALIA

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Abbreviations

AGS	Australian Government Solicitor
AGWF	Australian Government Water Fund
ANAO	Australian National Audit Office
COAG	Council of Australian Governments
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DEWHA	Department of the Environment, Water, Heritage and the Arts
FMA Act	<i>Financial Management and Accountability Act 1997</i>
FMA Regulations	<i>Financial Management and Accountability Regulations 1997</i>
MOU	Memorandum of Understanding
NWC	National Water Commission
NWI	National Water Initiative
WSA	Water Smart Australia

Glossary

Groundwater	Water that exists beneath the earth's surface in underground streams and aquifers.
Guidelines	The <i>Commonwealth Grant Guidelines</i> , which took effect from 1 July 2009 and represent the whole-of-government policy framework for grant administration. The Guidelines apply to all agencies subject to the FMA Act 1997, and include a number of requirements that apply to Ministers.
Minister	Is the Minister responsible, under the relevant Administrative Arrangements Order, for administering the <i>National Water Commission Act 2004</i> .
Over-allocation	The total volume of water able to be extracted by entitlement holders at any given time, which exceeds the environmentally sustainable level of extraction for that water system.
Water allocation	The specific volume of water allocated to water access entitlements in a given season, defined according to rules established in the relevant water plan.
Water entitlement	A perpetual or ongoing entitlement to exclusive access to a share of water from a specified consumptive pool, as defined in the relevant water plan.
Water plan	Statutory plan for surface and/or ground water systems to provide secure ecological outcomes and resource security for users.

Summary

Summary

Introduction

1. Since 1997, drought conditions have affected large parts of Australia. The most heavily populated cities—Sydney, Melbourne, Brisbane, Adelaide and Perth—have experienced severe and prolonged reductions in rainfall. Major food producing regions have also been affected, with surface and ground water resources under considerable stress.

2. The prolonged drought has had serious implications for water users and those responsible for water management. Water restrictions are standard in most capital cities, and all mainland state capitals have embarked on large projects to ensure adequate water supplies including, for example, building desalination plants to secure ‘climate-independent’ water sources. Governments of all levels have responded to the unprecedented water shortages by implementing new programs, cross-jurisdictional frameworks and regulatory reforms.

The National Water Initiative

3. The National Water Initiative (NWI) is Australia’s key intergovernmental agreement on water reform, which has been signed by all governments.¹ The agreement builds on the 1994 Water Reform Framework, and commits signatories to actions that achieve a more nationally cohesive approach to the way that Australia manages, measures, plans for, prices and trades water.

National Water Commission and the \$2 billion Water Fund

4. In December 2004, the re-elected Coalition Government established an independent statutory body, the National Water Commission, to oversee and report on the implementation of the NWI. The former Government also created a \$2 billion Water Fund, comprised of three separate programs:

- Water Smart Australia (\$1.6 billion);

¹ The NWI was initially signed in June 2004 by the Governments of New South Wales, Victoria, Queensland, South Australia, the Northern Territory, the Australian Capital Territory and the Australian Government. The Tasmanian Government signed in July 2005, and the Western Australian Government in April 2006.

- Raising National Water Standards (\$200 million); and
- Community Water Grants (\$200 million).

5. The NWC was given responsibility for administering the first two of these programs. In July 2008, the Water Smart Australia (WSA) program was transferred to the Department of the Environment, Water, Heritage and the Arts (DEWHA). WSA is now one of many water programs that DEWHA is administering under the Australian Government's \$12.9 billion *Water for the Future* plan.

The Water Smart Australia program

6. The WSA program aims to accelerate the development and uptake of smart technologies and practices in water use. It also aims to promote the objectives and outcomes of the NWI. The program was originally scheduled to run until 30 June 2010, but funding has now been re-phased to 30 June 2011.

7. When the program was first established, the NWC proposed a two-stage approach, which was approved by the former Prime Minister. The first stage would be used to fund projects announced as part of the Coalition Government's 2004 election platform, while 'competitive bidding' would be used to select projects for the remainder of the program. This approach subsequently evolved, with program funding being made available to eligible applicants through a number of different pathways, which included:

- *First Stage*—predominantly used to fund the Coalition Government's 2004 election commitments, open only to State and Territory governments;
- *Round 1 and Round 2*—more conventional funding rounds, open to State and Territory governments, local governments, the private sector and other organisations and community groups;
- *National Icon stage*—introduced to fund large 'iconic' water projects, open only to State and Territory governments; and
- *Other*—projects that were not funded under the other pathways, including projects initiated through direct approaches to the former Minister for the Environment and Water Resources.

Assessment and approval of funding proposals

8. Across the five funding pathways, the NWC assessed a total of 382 proposals, and 74 projects were awarded funding by the responsible Minister.

In most cases, the Commonwealth made a contribution to total project costs (generally between 30–50 per cent), rather than funding projects outright. As of 30 June 2009, a total of \$1.52 billion has been committed under the program, with individual grants ranging from \$50 000 to \$408 million. A wide range of projects have been funded, all of which have been categorised against NWI reforms.² These reforms include: water reuse and recycling; water planning; returning overused/allocated systems to sustainability; improving environmental outcomes; and securing reliable water supplies.

9. Although the assessment process and selection criteria for the funding pathways were not identical, the majority of funding proposals were subject to: a preliminary eligibility assessment; subsequent detailed assessment and due diligence by the NWC staff and, where necessary, by technical experts. Commissioners³ then considered and recommended projects to the responsible Minister for a final funding decision. Under the *National Water Commission Act 2004* (the Act), the Minister is responsible for determining and awarding funding assistance to applicants. The former Prime Minister was originally responsible for the program. Changes to the Administrative Arrangements Order then resulted in responsibility being assigned to the then Minister for the Environment and Water Resources, and to the current Minister for Climate Change and Water. In March 2009, the Minister for Climate Change and Water delegated responsibility for the management of the WSA program to the Parliamentary Secretary for Water.

Ongoing administration of grants

10. From July 2008, DEWHA has been responsible for the ongoing administration of the program, including: developing and executing funding agreements; monitoring progress and outcomes against the agreements; and making payments to proponents.⁴ The Minister, and subsequently the Parliamentary Secretary, retained responsibility for approving any major

² Since some projects address more than one NWI objective, similar projects may be categorised differently.

³ Seven Commissioners are appointed in recognition of their expertise in water resource policies, natural resource program management, relevant scientific disciplines, and public sector governance. When the program was transferred to DEWHA, Commissioners were no longer involved in the program.

⁴ The NWC was responsible for administering the program from December 2004 to June 2008 and DEWHA from July 2008 onwards.

variations to projects and making decisions on whether to withdraw funding or terminate agreements for under-performing projects.

11. As of 30 June 2009, eight projects have been completed, while all other projects are in various stages of progress or had yet to commence. Some \$1.02 billion has been paid out to project proponents. A further \$500 million is available to be paid before the program ends on 30 June 2011.

Legislative framework and better practice guidance

12. Within the Commonwealth, the provision of grants is governed by a range of legislative requirements, supported by better practice guidance.⁵ One of these requirements, which was in place when the majority of funding decisions were made under the WSA program, was that approvers of spending proposals:

... must not approve a proposal to spend public money (including a notional payment under the meaning of section 6 of the [FMA] Act) unless the approver is satisfied, after making such inquiries as are reasonable, that the proposed expenditure:

- (a) is in accordance with the policies of the Commonwealth; and
- (b) will make efficient and effective use of the public money; and
- (c) if the proposal is one to spend special public money, is consistent with the terms under which the money is held by the Commonwealth.⁶

13. New *Commonwealth Grant Guidelines* were issued in July 2009 by the current Minister for Finance and Deregulation, following amendments to the *Financial Management and Accountability Regulations 1997* (FMA Regulations). All agencies subject to the *Financial Management and Accountability Act 1997* (FMA Act), including DEWHA, are required to adhere to the *Commonwealth Grant Guidelines*. The Guidelines list mandatory actions for Ministers and officials and set out seven principles for sound grant administration. The regulation relating to the approval of spending proposals has also been amended. It now states that:

⁵ See, for example, the ANAO's Better Practice Guide on *Administration of Grants*, May 2002.

⁶ Sub-regulation 9(1) of the *Financial Management and Accountability Regulations 1997*, prior to 1 July 2009.

An approver must not approve a spending proposal unless the approver is satisfied, after reasonable inquiries, that giving effect to the spending proposal would be a proper use of Commonwealth resources (within the meaning given by subsection 44 (3) of the [FMA] Act).⁷

Audit objective, scope and methodology

14. The objective of this audit was to assess whether the WSA program has been administered effectively by the NWC/DEWHA⁸, as relevant, and is achieving its stated program objective. Specifically, the ANAO examined whether:

- funding proposals have been assessed and approved in a fair, consistent manner and in accordance with applicable criteria, program guidelines and better practice;
- appropriate funding arrangements have been established with proponents, having regard to the size of the grant, the type of entity involved and the nature of the project; and
- DEWHA (and previously the NWC) is actively monitoring whether proponents are complying with their obligations, and grant payments are made only in accordance with funding agreements.

More broadly, the audit examined DEWHA's strategy for evaluating and reporting on the long-term benefits of the program.

Overall conclusion

15. WSA is a large discretionary grants program established against the backdrop of a severe and worsening drought. The program co-funds projects that provide more efficient and effective ways of using available water resources. It was part of a broader government response aimed at securing Australia's water future.

⁷ Regulation 9 of the *Financial Management and Accountability Regulations 1997*, effective 1 July 2009. When this regulation commenced, subsection 44(3) of the FMA Act defined *proper use* to mean efficient, effective and ethical use that is not inconsistent with the policies of the Commonwealth.

⁸ The audit covers the periods that each agency was responsible for administering the program—that is, December 2004 to June 2008 for the NWC, and July 2008 onwards for DEWHA.

16. Program funding has been awarded to projects that seek to provide better management or use of water resources. The previous Government's intention was to use 'competitive bidding' to gain maximum effect from the investment in water projects. As the program evolved, this did not occur. Only 18 per cent of committed program funding (\$270 million) was awarded through the two open funding rounds. More than \$1 billion has been awarded to 2004 and 2007 election commitments and to National Icon or 'Other' projects, where the assessed merit of proposals was not always the key criterion in determining funding.

17. Overall, the program has been administered effectively by the NWC and DEWHA. The NWC was initially responsible for administering the program, with DEWHA taking over the ongoing administration of the program in July 2008. The NWC established, and generally followed, a sound framework for assessing the merits of the projects against approved selection criteria. Both agencies had adequate arrangements in place for developing funding agreements, monitoring the progress of projects following approval, and managing financial risks when making milestone (or advance) payments.

18. Notwithstanding these effective administrative arrangements, the full and timely achievement of funded water objectives has been adversely impacted by: significant delays in signing funding agreements; projects failing to meet agreed milestones; decisions not to terminate funding agreements where little or no progress has been made; and, for some projects, insufficient rainfall to generate agreed water savings.

19. The full benefits of the program may not be known for several years after funding ceases on 30 June 2011. It will, therefore, be important for DEWHA to have arrangements in place for monitoring proponents' ongoing evaluation reports. Also, since WSA was the first major grants program aimed at improving the management and use of Australia's water resources, there are obvious benefits in disseminating the good practices and 'lessons learned' from the program, to inform the design and delivery of other departmental grant programs. This includes the water programs that DEWHA administers under the Government's \$12.9 billion *Water for the Future* plan.

20. The NWC advised the responsible Minister where proposals were assessed to be uncompetitive and/or inconsistent with relevant NWI reforms

when putting forward projects for funding, including three examined by the ANAO.⁹ In addition, there were two National Icon projects where the funding awarded was materially higher than recommended by the NWC.¹⁰ Also, one project was announced by the former Prime Minister prior to the proposal being received and assessed by the NWC.¹¹

21. Although advice provided by the NWC was not accepted, it was the prerogative of the responsible Ministers to reach a different decision, providing they were satisfied that the expenditure they approved was in accordance with government policy and represented an efficient and effective use of public money. Under the rules applying at the time these funding decisions were made, Ministers were not required to document any additional advice sought, or the specific reasons for approving funding; and no such documentation was evident from departmental records. The current Government has subsequently strengthened the administrative arrangements applying to the assessment and approval of grants. While not affecting a Minister's right to decide on the allocation of grants, there is now an expectation that there will be greater transparency and accountability for the funding decisions made.

22. The ANAO has not made any specific recommendations on the administration of the program, given the mandatory requirements and better practice principles outlined in the new *Commonwealth Grant Guidelines*, which have been informed by earlier ANAO audits on grant administration.

Key findings by chapter

Selecting projects for funding (Chapter 2)

23. The WSA program was first announced in the Coalition Government's 2004 election policy statement, *Securing Australia's Water Future*.¹² In this statement, the Coalition said that:

⁹ These projects were: *NQ Water* (\$40 million); *Waterproofing the South* (\$34.5 million); and *Statewide Wastewater Recycling* (\$20 million).

¹⁰ Funding of \$247.6 was recommended by the NWC for the *Western Corridor* project and \$408 million was awarded. Funding of \$31 million was recommended for the *Ballarat Superpipe* project and \$90 million was awarded.

¹¹ Funding of \$80.3 million was awarded to the *Wyong-Mardi Link* project.

¹² *Securing Australia's Water Future*, The Coalition Government, 2004 Election Policy.

- funds would be made available to projects, taking into account the financial contribution offered by local government bodies, State and Territory governments and/or industry; and
- to gain greatest effect from these investments, competitive bidding will be the primary mechanism for allocating grants.

24. Following the Coalition Government's re-election in October 2004, the NWC proposed that the program be established in two stages. The first stage would be a small tranche of projects drawn from the list of projects already announced as election commitments, or from examples of projects contained in *Securing Australia's Water Future*. The second stage would proceed as soon as the normal documentation for a competitive bidding program could be completed. The former Prime Minister approved this two-stage approach, along with assessment criteria for the First Stage.

Assessment framework

25. The NWC was responsible for developing and administering the assessment framework for the program. There were no overall guidelines for the program. Instead, the NWC developed guidelines and an assessment framework for Rounds 1 and 2, which were approved by the former Prime Minister. The NWC also developed criteria for the National Icon stage, which were broadly similar to the open funding rounds, but aimed at funding large, 'transformative' water projects. No separate guidelines or criteria were developed for projects classified as 'Other', which were not approved under a conventional funding round.

26. The ANAO examined a sample of 20 (of 74) projects, which accounted for \$1.1 billion, or some 79 per cent of total committed funding. The NWC followed sound processes for assessing proposals against the relevant criteria, and provided advice to the responsible Minister on the merits of projects. All projects examined by the ANAO were assessed appropriately by the NWC, with the exception of the *Wyong-Mardi Link* project, which was funded under the 'Other' pathway. For this project, the former Prime Minister announced funding of \$80.3 million before any proposal was received. The NWC was given an opportunity to provide preliminary advice before the announcement was made, but was not supportive of the project being funded under the WSA program. Aspects of the assessment process for Round 1 could have been better documented by the NWC, but were improved upon for Round 2 (when the NWC used an electronic database to record project assessments).

27. The assessed merits of proposals by government agencies do not necessarily determine the ultimate success of projects, once funding is provided. Two of the election commitments that the NWC assessed as being unfavourable have since gone on to generate water benefits in their regions (*Statewide Wastewater Recycling* and *Waterproofing the South*). In contrast, three of the five projects that received favourable assessments by the NWC in Rounds 1 and 2 have experienced problems, following the offer of funding.¹³

Funding decisions

28. As previously noted, when the program was established, the former Government's intention was to use 'competitive bidding' to select projects after the First Stage, which was reserved for its 2004 election commitments. However, in practice, this did not occur. Across the program, less than 18 per cent of total funding was allocated to projects from the two open funding rounds. The remaining program funding, some \$1.23 billion, has been awarded to election commitments, National Icon projects and projects classified as 'Other'. All sampled projects were approved for funding by the responsible Minister, as required under the Act, with the exception of *NQ Water* (\$40 million). In this case, the project was publicly announced by the former Prime Minister, but was not followed up by written approval, despite multiple requests by the NWC to obtain this approval.

29. For seven sampled projects (total funding of \$663 million), funding was awarded where:

- projects were proceeding anyway, and the level of funding was materially higher than recommended by the NWC; or
- projects announced as 2004 election commitments failed to meet the selection criteria for the open funding rounds; or
- a formal assessment had not been undertaken, and/or preliminary advice was unfavourable.

¹³ *Dalby Water Supply* has been terminated by mutual agreement; *Tasmanian Metering* is significantly behind schedule and has been reduced in scope; and *Hydrometric Network Expansion* experienced extensive delays.

Establishing funding agreements (Chapter 3)

30. Once funding had been approved, the NWC and DEWHA were responsible for developing and executing funding agreements with proponents. All proponents were required to sign legally binding agreements and, as of 30 June 2009, some 74 agreements have been signed. In some cases, MOUs were signed with State governments to support project objectives and to advance particular NWI reforms.

31. Signed funding agreements with detailed project schedules were in place for all 20 projects reviewed by the ANAO. The agreements were well-developed and included clauses that specified the respective roles and obligations of the parties, protected the Commonwealth investment and set out each project's objectives. Nevertheless, in seven cases where water savings were being funded, project objectives were not expressed with sufficient precision to assist with subsequent monitoring and evaluation of project outcomes.

Delays in signing funding agreements

32. For 11 projects reviewed by the ANAO, it took over six months for funding agreements to be signed following the offer of funding, and in seven of these cases, the delay exceeded 12 months (with one agreement taking two and a half years to finalise). A major reason for the delays was negotiations between the NWC and the relevant State governments over the nature and terms of the legally enforceable funding agreements.

33. The time taken to finalise funding agreements has delayed the realisation of funded water benefits and, in some cases, has contributed to cost increases and later variations to projects. Overall, this has resulted in program funding of \$152 million being re-phased to the year ending 30 June 2011, to allow payments to be made for projects that will not be completed by the original end date of 30 June 2010. In 2007, the NWC established a framework for withdrawing offers of funding, which gave proponents five months to sign agreements from the date that funding was offered. This framework remains in place at DEWHA, although the decision to withdraw funding ultimately rests with the Minister.

Cost increases and other variations

34. As of 30 June 2009, nine of the 74 projects approved under the program have received additional funding of \$156 million, just over 10 per cent of total committed funding. The three projects with the largest cost increases (totalling

\$141 million) were assessed and approved as 2004 election commitments under the First Stage.

35. The ANAO examined six of the nine projects that incurred cost increases. In all six cases, the cost increases were approved by the responsible Minister, and, where relevant, matched by other funding contributors. The total cost increases across the program exceeded the amount in the program's contingency fund (\$40 million). As a result, additional funding of \$99 million was obtained from another water program administered by DEWHA¹⁴ for one project, and \$33 million through additional appropriations for two other projects.

Progress payments and outcomes (Chapter 4)

36. As of 30 June 2009, some \$1.02 billion has been paid to proponents, from total committed funds of \$1.52 billion. At this date, eight projects had been completed, another 62 were in progress and three were still to sign agreements.

Milestone payments

37. Most payments are made in arrears for work that has already been completed. In some cases, however, proponents received advance payments (usually paid quarterly), which had to be acquitted at the end of each period and before any further payment would be made. One exception to these payment arrangements was the *Western Corridor Recycled Water Scheme*, which received a one-off, up-front payment of \$408 million approved by the previous Government.

38. No material payment errors were identified in the 20 projects examined by the ANAO. The risks of misused and/or misspent payments have also been adequately managed. DEWHA's practice of making part-payments to proponents where milestones are only partially met is an effective way of managing financial risks, while still allowing projects to progress. The monitoring mechanisms used by NWC/DEWHA to inform payment decisions were reasonable, given available resources and the relative risks presented by projects. In particular, site visits are beneficial in addressing instances of

¹⁴ The \$5.8 billion Sustainable Rural Water Use and Infrastructure Program, which is part of the Australian Government's \$12.9 billion *Water for the Future* plan.

non-compliance with reporting requirements or delays in meeting milestones, and could be used more often to actively manage project risks.

Managing non-compliance or delays

39. The main area of non-compliance with reporting requirements, which applied to 11 projects reviewed, was the failure of proponents to provide audited financial statements—at all, on time or in the required format. Both agencies have generally managed this risk effectively by withholding payments until the statements are submitted by proponents.

40. Across the program, a number of proponents have made little progress since their funding agreement was signed. As of 30 June 2009, four agreements have been terminated. Both agencies have advised the responsible Minister of projects suitable for termination, recognising that the final decision rests with the Minister. Although there is a framework in place for withdrawing offers of funding, neither agency had developed a similar framework to guide decisions on when to terminate funding agreements for under-performing projects. The ANAO reviewed several projects where such a framework could have been usefully applied, to allow better overall use of program funds.

Achievement of project and program objectives

41. Although only eight projects have fully completed their milestones, most have ongoing evaluation requirements—and, in some cases, the final outcome may not be known until 2016 or beyond. However, for five projects examined by the ANAO, there are indications that the funded water objectives may not be delivered in the timeframe, or to the extent, required. In some cases, this is because there has been insufficient rainfall to generate required water savings for the environment. In other cases, it is because projects have not made satisfactory progress in meeting agreed milestones.

Program evaluation

42. In 2007, the NWC developed an evaluation strategy for the program. It then undertook an assessment of 25 projects, the results of which were included in its 2006–07 Annual Report. Since taking over administration of the program, DEWHA has continued to monitor the progress of projects against requirements in the funding agreements. It has also continued, and refined, the NWC's approach of asking proponents to complete an annual assessment of project benefits. These assessments help to inform DEWHA on the achievement of project outcomes. DEWHA advised that a more formal program evaluation will be a major focus of the work plan for the last two

years of the program. Among other things, the evaluation would be expected to consider whether the funded projects have contributed to the program objective of accelerating the development and uptake of smart technologies in water use.

Agency responses

43. The following comments constitute each agency's full response to the audit. They are reproduced at Appendix 1.

National Water Commission

44. The Commission welcomes the ANAO's assessment that the Water Smart Australia program has been administered effectively by the Commission for the first four years of the program's operation.

45. The Water Smart Australia program is seen as successful in meeting some of the water reform objectives in the National Water Initiative and, when the program is taken as a whole, providing for the delivery of important water reform outcomes through the funding of significant infrastructure projects that might not otherwise have occurred. The role of the Commission and its Commissioners in providing independent advice to the Minister on projects has been acknowledged in the report as sound governance for the administration of a grant program of this type.

46. While the ANAO has made no specific recommendations in the report, the Commission acknowledges that the report provides some better practice guidance which the Commission intends to consider for adoption in the administration of its other programs.

Department of the Environment, Water, Heritage and the Arts

47. The Department welcomes the overall conclusions of the audit. The Department will work to ensure the good practices and lessons learned from the Water Smart Australia program are used to inform the design and implementation of other programs it administers, including *Water for the Future* programs.

Audit Findings and Conclusions

1. Background and Context

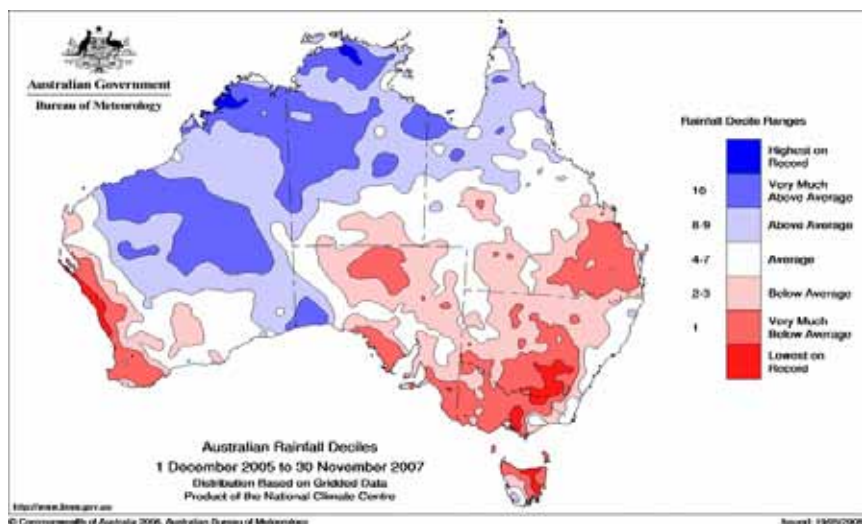
This chapter outlines the broad context for water reform in Australia and describes the main features of the Water Smart Australia program. The objective, scope and methodology of the audit are also discussed.

Australia's water resources

1.1 Australia is the driest inhabited continent in the world, where rainfall is variable and droughts are common.¹⁵ Since 1997, drought conditions have affected large parts of the country. The most heavily populated cities—Sydney, Melbourne, Brisbane, Adelaide and Perth—have experienced severe and prolonged reductions in rainfall. Major food producing regions have also been affected, with surface and ground water resources under considerable stress. In 2006–07, the Murray-Darling Basin, in south-eastern Australia, experienced record low inflows to its river systems. Other parts of the country also experienced below average rainfall during this period (see Figure 1.1).

Figure 1.1

Rainfall averages across Australia, December 2005 to November 2007



Source: Bureau of Meteorology

¹⁵ National Water Commission, *Australian Water Resources 2005*.

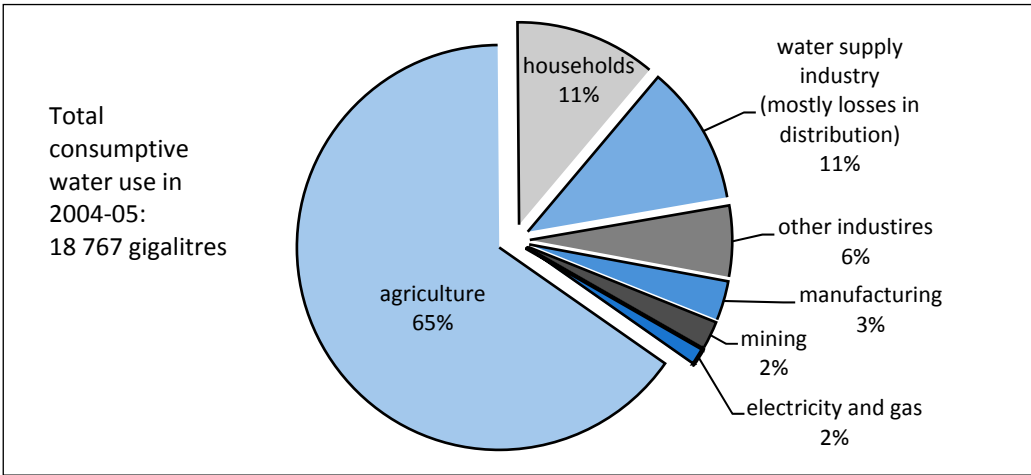
1.2 Although drought conditions have since eased in parts of south-eastern Australia, the prolonged drought has had serious implications for water users and those responsible for water management. Water restrictions are standard in most capital cities, and all mainland state capitals have embarked on large projects to ensure adequate water supplies including, for example, building desalination plants to secure ‘climate-independent’ water sources.

Water users

1.3 Available water can be used for two broad purposes—for consumption by different sectors including households, and for the environment (for example, increased river flows). In 2004–05, the agricultural sector was the largest consumptive user of water (see Figure 1.2) and remains so today. All sectors have had to adjust, to some extent, to the lower availability of water caused by the drought. The environment has also had less water, and in the Murray-Darling Basin, the Australian Government is buying water to improve environmental outcomes.

Figure 1.2

Water use in Australia by sector, 2004–05



Source: *Australian Water Resources 2005*, National Water Commission

Water management

1.4 In Australia, responsibility for the management of water resources rests primarily with State and Territory governments. However, intergovernmental efforts to improve the management of water resources date back to 1915, when the *River Murray Waters Agreement* was signed by the Commonwealth government and the New South Wales, Victorian and South Australian governments. In more recent decades, better management of Australia's water resources has been recognised as a national issue, with the Council of Australian Governments (COAG) first agreeing to a Water Reform Framework in 1994. More recently, all jurisdictions have signed the National Water Initiative (NWI), which is Australia's key intergovernmental agreement on water reform.

The National Water Initiative

1.5 The NWI was signed in June 2004 between the Commonwealth of Australia and the Governments of New South Wales, Victoria, Queensland, South Australia, the Australian Capital Territory and the Northern Territory. The Tasmanian Government signed the NWI in June 2005, and the Western Australian Government joined in April 2006.

1.6 The NWI builds on the 1994 Water Reform Framework, and commits signatories to actions that achieve a more nationally cohesive approach to the way that Australia manages, measures, plans for, prices and trades water. Key reforms to be undertaken by States and Territories include:

- preparing water plans with provision for the environment;
- dealing with over-allocated or stressed water systems;
- introducing registers of water rights and standards for water accounting;
- expanding the trade in water;
- improving pricing for water storage and delivery; and
- meeting and managing urban water demands.

1.7 Each State and Territory is required to prepare a plan for how they will implement the NWI reforms, and to lodge it with the National Water Commission (NWC), which was established by the *National Water Commission Act 2004* (the Act) in December 2004. The Act also established the \$2 billion Australian Government Water Fund (the Water Fund), which aimed to

facilitate investments in water infrastructure, to improve water management, and to foster better practices in the stewardship of Australia's scarce water resources.

National Water Commission and water programs

1.8 The NWC is an independent statutory body comprising seven Commissioners¹⁶ and staff, currently located within the Environment, Heritage, Water and the Arts portfolio. Its main roles are to advance national water reforms; provide advice to COAG on national water issues; monitor the implementation of the NWI and report progress to COAG.¹⁷

1.9 When the NWC was first established it was also responsible for administering two (of three)¹⁸ programs within the Water Fund:

- Water Smart Australia (WSA); and
- Raising National Water Standards.

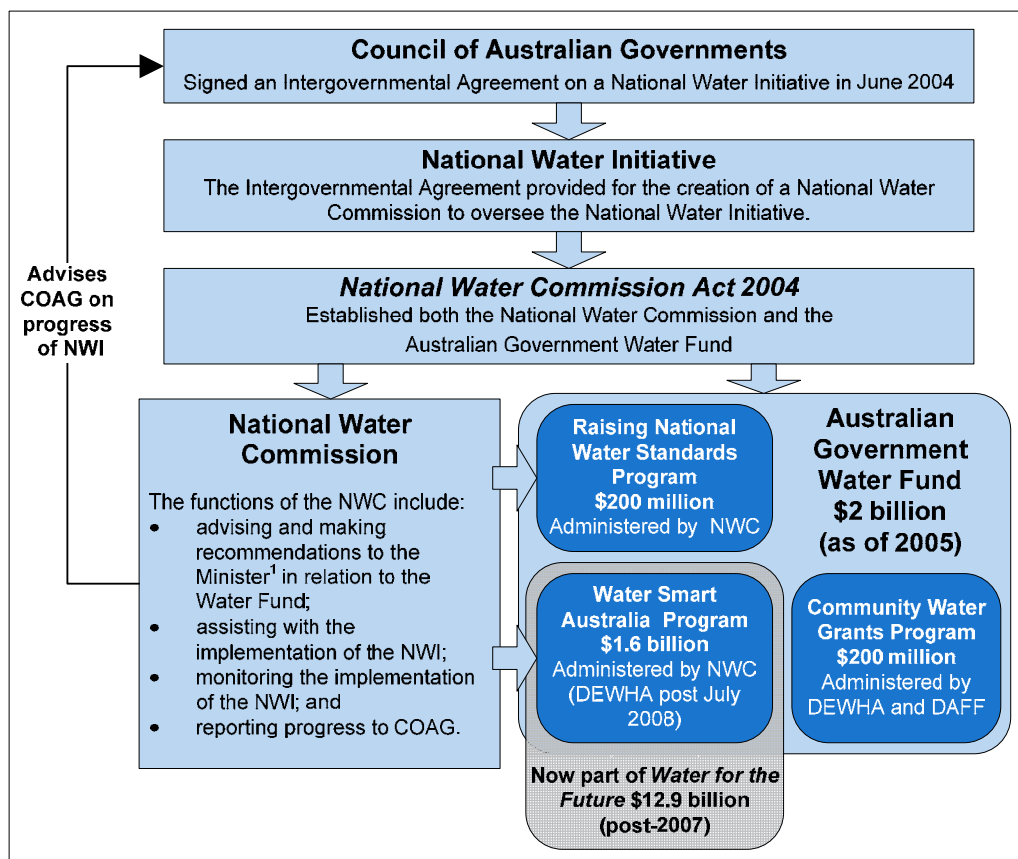
1.10 From 1 July 2008, responsibility for WSA transferred to the Department of the Environment, Water, Heritage and the Arts (DEWHA). The NWC retained responsibility for Raising National Water Standards.

1.11 WSA is now one of many water programs that DEWHA is delivering under the Australian Government's \$12.9 billion *Water for the Future* plan. This plan seeks to address four priority areas—taking action on climate change; using water wisely; securing water supplies; and supporting healthy rivers and waterways. Figure 1.3 depicts the governance arrangements for the NWI and the Water Fund, as overseen by COAG.

¹⁶ Commissioners are appointed in recognition of their expertise in water resource policies, natural resource program management, relevant scientific disciplines, and public sector governance. Four Commissioners are nominated by the Australian Government and three by the States and Territories.

¹⁷ The NWC released the report on its second biennial assessment of the NWI on 9 October 2009; while its first report was released in October 2007.

¹⁸ The third program, Community Water Grants, has now ceased, but was administered jointly between DEWHA and the Department of Agriculture, Fisheries and Forestry.

Figure 1.3**Overview of the governance arrangements for the National Water Initiative and the Australian Government Water Fund**

Note 1: The Minister has several roles throughout this framework, but has specific responsibilities for the WSA program (and other Water Fund programs) under the *National Water Commission Act 2004*.

Source: ANAO analysis, based on NWC/DEWHA documentation and the *NWC Act 2004*

Other major water initiatives

1.12 Most State and Territory governments have also implemented other plans and programs to advance the NWI and better address water management and use within their jurisdictions. At the Commonwealth level, the *Water Act 2007* commenced on 3 March 2008 and implemented key reforms for water management in Australia. Among other things, the Water Act established the Murray-Darling Basin Authority, which is responsible for developing a Basin-wide water sharing plan. The Water Act also established a Commonwealth Environmental Water Holder to manage the Commonwealth's environmental water to protect and restore the environmental assets of the

Murray-Darling Basin, and outside the Basin where the Commonwealth owns water.

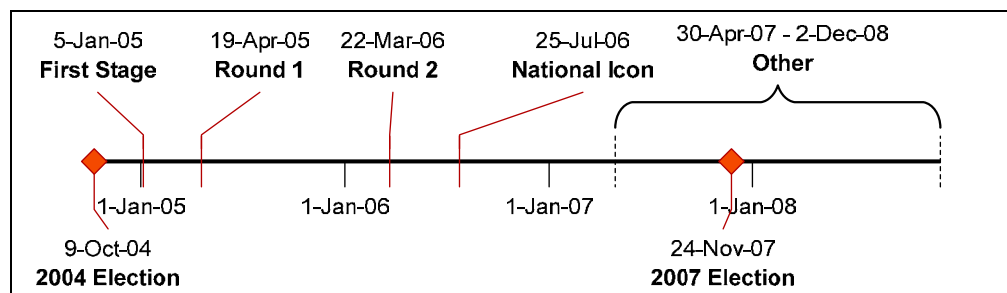
The Water Smart Australia program

1.13 At \$1.6 billion, WSA is the largest of the three programs that make up the Water Fund. Its stated objective is to accelerate the development and uptake of smart technologies and practices in water use. The program also aims to promote the objectives and outcomes of the NWI. WSA was originally scheduled to run for five years until 30 June 2010, but funding has now been re-phased to 30 June 2011.

1.14 When the program was first established, the NWC proposed a two-stage approach, which was approved by the former Prime Minister. The First Stage would be used to fund projects announced as part of the Coalition Government's 2004 election platform, while 'competitive bidding' would be used to select projects for the remainder of the program. This approach subsequently evolved, with program funding being made available to eligible applicants through the following five pathways:

- *First Stage*—predominantly used to fund the Coalition Government's 2004 election commitments, open only to State and Territory governments;
- *Round 1 and Round 2*—more conventional funding rounds, open to State and Territory governments, local governments, the private sector and other organisations and community groups;
- *National Icon stage*—introduced to fund large 'iconic' water projects, open only to State and Territory governments; and
- *Other*—used to fund projects that did not fit within the other funding pathways, including projects initiated through direct approaches to the former Minister for the Environment and Water.

The timeline of the funding pathways is illustrated in Figure 1.4.

Figure 1.4**Timeline of the funding pathways**

Source: ANAO based on DEWHA data

Framework for assessing and approving funding proposals

1.15 Within the Commonwealth, the provision of grants is governed by a range of legislative requirements, supported by better practice guidance.¹⁹ One of these requirements, which was in place when the majority of funding decisions were made under the WSA program, was that approvers of spending proposals:

... must not approve a proposal to spend public money (including a notional payment under the meaning of section 6 of the [FMA] Act) unless the approver is satisfied, after making such inquiries as are reasonable, that the proposed expenditure:

- (a) is in accordance with the policies of the Commonwealth; and
- (b) will make efficient and effective use of the public money; and
- (c) if the proposal is one to spend special public money, is consistent with the terms under which the money is held by the Commonwealth.²⁰

1.16 From 1 July 2009, all FMA Act agencies, including DEWHA, are required to adhere to the *Commonwealth Grant Guidelines*, which were issued by the current Minister for Finance following amendments to the FMA Regulations. The *Guidelines* list mandatory actions for Ministers and officials

¹⁹ See, for example, the ANAO's Better Practice Guide on *Administration of Grants*, May 2002. A revised version of the Guide is expected to be published in 2010.

²⁰ Sub-regulation 9(1) of the *Financial Management and Accountability Regulations 1997*, prior to 1 July 2009.

and set out seven principles for sound grant administration. The regulation relating to the approval of spending proposals has also been amended. It now states that:

An approver must not approve a spending proposal unless the approver is satisfied, after reasonable inquiries, that giving effect to the spending proposal would be a proper use of Commonwealth resources (within the meaning given by subsection 44 (3) of the [FMA] Act).²¹

Role and responsibilities under the program

1.17 Under the Act, the Minister²² is responsible for determining and awarding funding assistance to applicants (called proponents), while the NWC's role was to advise and make recommendations to the responsible Minister in relation to the program. DEWHA also took on this advisory role when the WSA program was transferred from the NWC.

1.18 The assessment process and selection criteria²³ were not identical across the five funding pathways. Nevertheless, a number of key steps were followed when assessing the majority of funding proposals, which included:

- *Eligibility*—an initial check of applications by NWC staff to confirm, among other things, whether the proposal is consistent with the policy objectives and agreed outcomes of the NWI;
- *Detailed assessment*—eligible applications were then subject to a more detailed assessment by NWC staff, who examined the social, economic, environmental, financial and technical aspects of each project; and sought expert advice, where relevant;
- *Due diligence*—for those projects deemed worthy of funding, NWC staff undertook a risk management and due diligence assessment, mainly to confirm the proponent's compliance with applicable statutory requirements;

²¹ Regulation 9 of the *Financial Management and Accountability Regulations 1997*, effective 1 July 2009. When this regulation commenced, subsection 44(3) of the FMA Act defined *proper use* to mean efficient, effective and ethical use that is not inconsistent with the policies of the Commonwealth.

²² The former Prime Minister was originally responsible for the program. Changes to the Administrative Arrangements Order then resulted in responsibility being assigned to other Ministers. In March 2009, the current Minister for Climate Change and Water delegated responsibility for the management of the WSA program to the Parliamentary Secretary for Water.

²³ The selection criteria for each pathway, except for 'Other', are listed in Appendix 3.

- *Commissioners' consideration*²⁴—the outcomes of assessments were considered by the NWC Commissioners (at their regular meetings). Where relevant, Commissioners sought further information from NWC staff or external experts, and recommended projects for funding to the Minister; and
- *Funding decision*—Ministers decided which projects to fund and whether to attach any funding conditions (which were often recommended by Commissioners).

Figure 1.5 sets out the number of applications received, assessed, recommended and approved for each funding pathway.

Figure 1.5

Number of proposals assessed and approved under the WSA program

Administered:	NWC				DEWHA	
Funding pathway	First Stage (2004 Election)	Round 1 (2005-06)	Round 2 (2006-07)	National Icon (2007-08)	Other	(Total)
Funding proposals	13	176	176	17	n/a	(382)
Detailed Assessment	13	51	105	17	n/a	(186)
Recommended	13	29	24	3	n/a	(69)
Projects approved	13	27	22	3	16	(81) ¹
Approver:	Prime Minister			Portfolio Minister		

Note 1: Seven of the 81 projects approved for funding did not commence following the offer of funding.

Source: ANAO analysis of DEWHA data (as of 15 January 2009)

1.19 Across the five funding pathways, the NWC/DEWHA assessed a total of 382 proposals, and 81 projects were approved for funding by the responsible Minister. Seven of these projects did not commence following the offer of

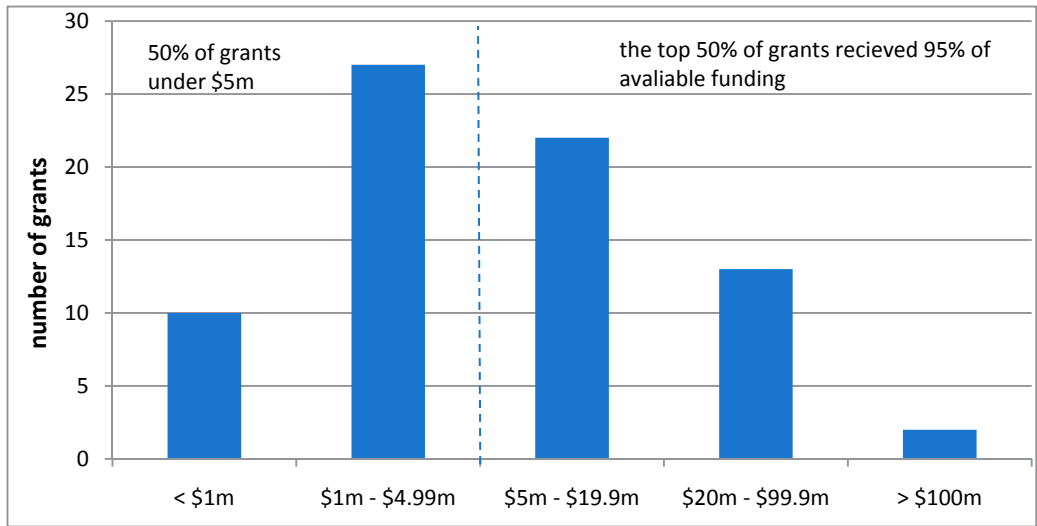
²⁴ When the program was transferred to DEWHA, Commissioners and NWC staff were no longer involved in the assessment process, or any part of the program.

funding. In most cases, the Commonwealth made a contribution to total project costs (generally between 30–50 per cent), rather than funding projects outright. As of 30 June 2009, a total of \$1.52 billion had been committed under the program.

1.20 The grants ranged from \$50 000 to \$408 million.²⁵ As illustrated in Figure 1.6, half of the 74 funded projects were awarded \$5 million or less, with the remaining 37 projects receiving 95 per cent, or \$1.4 billion, of total committed funding.

Figure 1.6

Range of grants committed under the WSA program



Source: ANAO analysis of DEWHA data (as at 30 June 2009)

Types of projects funded

1.21 A wide range of projects have been funded under the program, all of which have been categorised by the NWC against the key NWI reform areas.²⁶ Examples of these include:

²⁵ Six of the 10 largest discretionary grants awarded in 2007 were for projects under the WSA program. See *Strategic Review of The Administration of Australian Government Grant Programs*, Department of Finance and Deregulation, 31 July 2008, p. 136.

²⁶ Since some projects address more than one NWI objective, similar projects may be categorised differently.

- water reuse and recycling—such as the *Western Corridor Recycled Water Scheme* in Queensland, which received funding of \$408 million; and the *Mackay Wastewater Recycling*, which received funding of \$45.7 million;
- water planning—such as *Sustainable Management of Water Resources in the Mount Lofty Ranges*, which received funding of \$13.9 million;
- returning overused/allocated systems to sustainability—such as the construction of the *Wimmera Mallee Pipeline* in western Victoria, which was awarded total funding of \$266 million²⁷ (see photos in Figure 1.7);
- improving environmental outcomes—such as the *Hawkesbury Nepean River Recovery* in New South Wales, which received funding of \$77.4 million; and
- securing reliable water supplies—such as the *Ballarat Goldfields Superpipe*, which received funding of \$90 million.

Figure 1.7

Trunk pipe (left) and laying smaller distribution pipes (right) for the Wimmera Mallee Pipeline project.



Source: ANAO site visit (left) and the Grampians Wimmera Mallee Water Corporation (right)

²⁷ Some \$167 million from the WSA program and \$99 million from another water program.

Ongoing administration of grants

1.22 Once a project was approved for funding, the NWC and, since July 2008, DEWHA was responsible for administering the grant, including: developing and executing funding agreements; monitoring progress and outcomes against the agreement; and making payments to proponents.²⁸ Since the commencement of the program, the responsible Minister has retained responsibility for approving any major variations to projects and making decisions on whether to withdraw funding or terminate agreements for under-performing projects.

1.23 As of 30 June 2009, eight projects had been completed, while all other projects were in various stages of progress or had yet to commence. Some \$1.02 billion has been paid out to project proponents, with \$500 million available to be paid out before the program ceases on 30 June 2011.

1.24 When projects are completed, proponents are required to submit a final report to DEWHA, evaluating the success of the project. Proponents may also be required to submit reports for several years beyond the end of the project to allow a final evaluation of the benefits.

Changes to governance arrangements

1.25 Key elements of the governance structure and financial arrangements for WSA changed significantly when the program was transferred from the NWC to DEWHA in 2007–08. In particular, at the NWC, payments were made from a Special Account and a panel of Commissioners was responsible for providing advice to the responsible Minister on program matters. Whereas, at DEWHA, program funds are obtained through an annual appropriation and advice on specific projects, or wider program issues, is provided to the responsible Minister by departmental officials. The Minister continues to have responsibility for determining and awarding grants.

²⁸ The NWC was responsible for administering the program from December 2004 to June 2008 and DEWHA from July 2008 onwards.

Audit objective, scope and methodology

Objective

1.26 The objective of this audit was to assess whether the WSA program has been administered effectively and is achieving its stated program objective. Specifically, the ANAO examined whether:

- funding proposals have been assessed and approved in a fair, consistent manner and in accordance with applicable criteria, program guidelines and better practice;
- appropriate funding arrangements have been established with proponents, having regard to the size of the grant, the type of entity involved and the nature of the project; and
- DEWHA (and previously the NWC) is actively monitoring whether proponents are complying with their obligations, and grant payments are made only in accordance with funding agreements.

More broadly, the audit examined DEWHA's strategy for evaluating and reporting on the long-term benefits of the program.

Scope

1.27 The audit covers the periods that each agency was responsible for administering the WSA program—that is, December 2004 to June 2008 for the NWC, and July 2008 onwards for DEWHA. The two other programs within the Water Fund, Raising National Water Standards and Community Water Grants, were not examined as part of the audit.

Methodology

1.28 This audit was conducted in accordance with ANAO auditing standards at a cost of \$530 000. The methodology included:

- interviews and discussions with officers from DEWHA and the NWC;
- qualitative and quantitative analysis of both agencies' files and data, including a detailed examination of:
 - a sample of 20 (of 74) projects funded under the program;
 - an additional sample of 17 proposals from the two open funding rounds that were unsuccessful in obtaining funding; and

- discussions with stakeholders, including officers from State Government agencies, and field visits to nine project sites.

Details on the projects selected for the ANAO's audit sample, and the factors used to select this sample, are provided in Appendix 2. The project sites visited are also listed.

2. Selecting Projects for Funding

This chapter examines the NWC/DEWHA's processes for assessing the eligibility and merits of proposals, and recommending projects for funding approval by the Minister.

Introduction

2.1 A fundamental principle of grant administration is that funding should be approved for purposes that achieve value for public money and which are consistent with the objectives of the program and the broader policies of the government.²⁹ This principle is underpinned by various legislative requirements, including that approvers of spending proposals meet the requirements of the FMA Act and Regulations.³⁰

2.2 The ANAO examined the NWC/DEWHA's processes for assessing the eligibility and merits of project proposals across the five funding pathways and recommending projects for funding to the responsible Minister. As previously indicated, during the life of the program, the former Prime Minister, the then Minister for the Environment and Water Resources in the previous Government, as well as the current Minister for Climate Change and Water have approved grants under the WSA program.

Establishing the WSA program

2.3 The WSA program was first announced in the Coalition Government's 2004 election policy statement, *Securing Australia's Water Future*.³¹ In this statement, the Coalition said that:

- funds would be made available to projects, taking into account the financial contribution offered by local government bodies, State and Territory governments and/or industry; and
- to gain greatest effect from these investments, competitive bidding will be the primary mechanism for allocating grants.

²⁹ See ANAO *Administration of Grants* Better Practice Guide, May 2002 p. 42.

³⁰ See paragraphs 1.15 and 1.16.

³¹ *Securing Australia's Water Future*, The Coalition Government, 2004 Election Policy.

2.4 The election statement gave examples of projects that could be assisted under the WSA program, and the Coalition Government committed to discussing assistance with NWI signatories on a case-by-case basis, while reserving the right to initiate projects itself. During the 2004 election campaign, the Coalition Government set a target of at least one project to be approved in each State and Territory by February 2005, and it made commitments to fund specific projects.

The First Stage and subsequent funding pathways

2.5 In December 2004, following the Coalition's re-election, the NWC proposed that the WSA program be established in two stages:

- the first stage would be a small tranche of projects drawn from the list of projects already announced as election commitments, or drawing on examples of projects contained in *Securing Australia's Water Future*; and
- the second stage would proceed as soon as the normal documentation for a competitive bidding program could be completed.

2.6 The former Prime Minister approved this two-stage approach, along with six assessment criteria for the First Stage (as listed in Appendix 3). The NWC then developed guidelines and an assessment framework for Round 1, which were both modified for Round 2, based on lessons learnt from Round 1. The guidelines and the assessment framework for Rounds 1 and 2 were approved by the former Prime Minister, and the guidelines were publicly available.

2.7 Round 2 was the last funding round of the program that adopted an open and competitive process, based on published selection criteria. The next funding pathway, the National Icon stage, was initiated by the former Prime Minister following concerns that too many small grants had been recommended for funding in Round 1. The purpose of this stage, which was open only to State and Territory governments, was to fund large, 'transformative' water projects of state or national significance. The selection criteria for the National Icon projects were not made public, but were outlined in a letter from the former Prime Minister to the then Premiers/Chief Ministers, inviting them to nominate projects for funding.

2.8 The final funding pathway for the program consisted of projects classified by the NWC as 'Other'. There were no published guidelines or criteria developed for this funding pathway. These projects were not approved as part of a conventional funding round by the Minister responsible for the

program at the time. These projects are discussed in more detail later in the chapter.

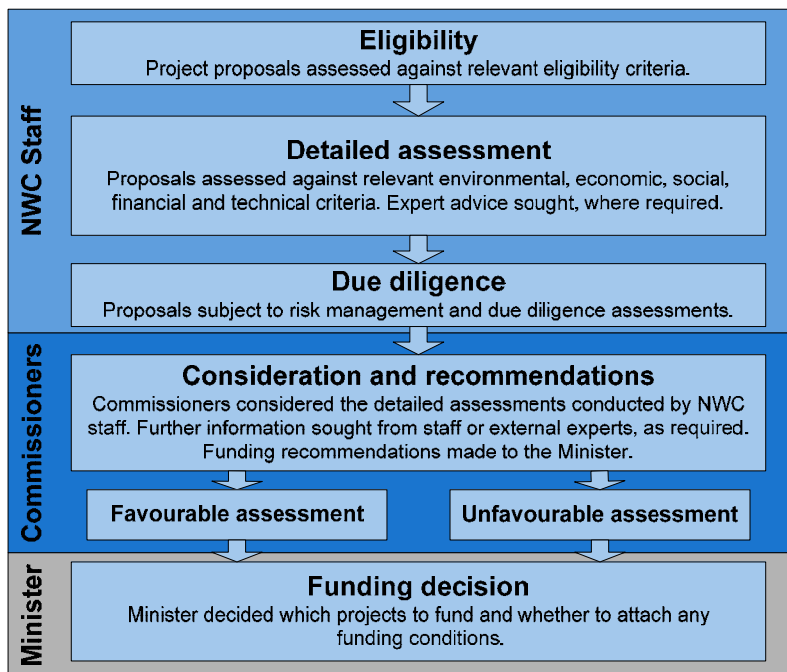
Assessment framework

2.9 As outlined in Chapter 1, the NWC developed a sound assessment framework that was broadly consistent across the various funding pathways, except for the ‘Other’ pathway. For most projects, the assessment included the key steps listed in Figure 2.1.

2.10 A key component of this assessment framework was the deliberations and recommendations of a panel of seven Commissioners, which included the Chief Executive Officer (CEO) of the NWC. As noted earlier, the Commissioners were appointed under the Act for their relevant expertise in water resource policies, natural resource program management, relevant scientific disciplines and public sector governance. In assessing proposals, the Commissioners drew on advice from NWC staff and, as required, from external advisors (for example, with expertise in evaluating the technical and financial viability of large infrastructure projects).

Figure 2.1

Assessment framework for funding proposals



Source: ANAO analysis of DEWHA data

Differences between funding pathways

2.11 An important difference between the First Stage and all subsequent funding pathways was that formal project proposals were not required from State and Territory governments. Instead, the NWC worked with First Stage proponents to develop their proposals, and consulted with other Commonwealth departments, as necessary. For the National Icon stage, after each project had been assessed by the NWC and considered by the Commissioners, bilateral meetings were held between the Commonwealth and State or Territory governments to discuss the nominated projects. Further information was then requested from each jurisdiction to inform the responsible Minister's funding decision on each project. Some ten National Icon projects were also subject to a detailed assessment by an external party to assist in determining their overall merit.³²

Movement of projects between funding pathways

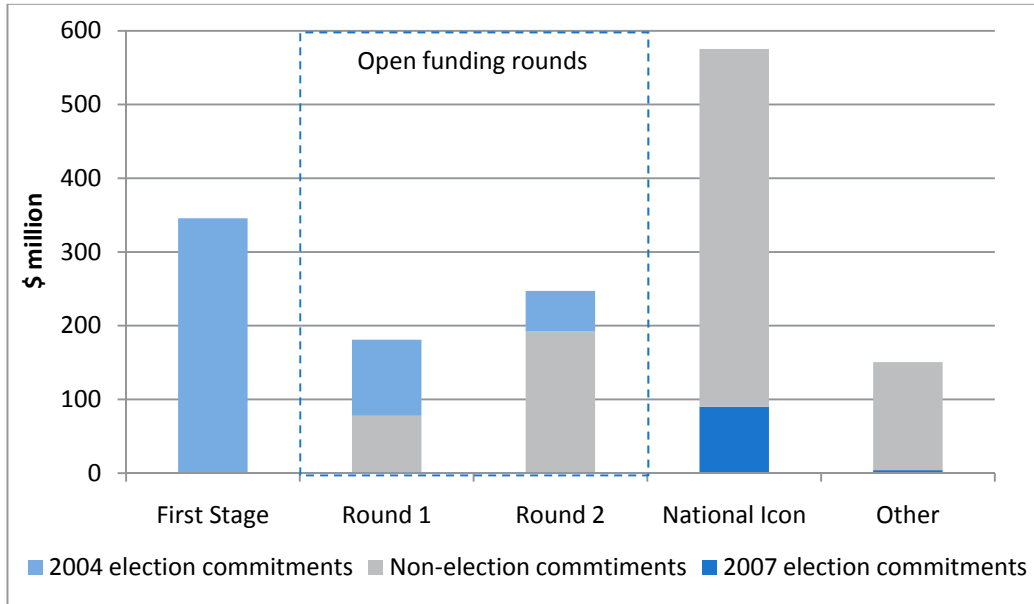
2.12 Although the First Stage was intended to fund projects already committed to by the Coalition Government during the 2004 election, not all of these projects were at a sufficiently advanced stage to be funded under this pathway. As a result, eight projects that were announced as 2004 election commitments were assessed and funded under the later open funding rounds (see Figure 2.2).

2.13 In addition, one project that was originally submitted during Round 2, was re-worked and resubmitted under the National Icon pathway.³³ Two projects that were rejected under the open funding rounds were later approved under the 'Other' pathway by the then Minister.³⁴ Three projects, which were 2007 election commitments of the current Government, were funded under the National Icon and 'Other' pathways.

³² The consultancy that undertook these assessments specialises in providing strategic and financial advice on public and private infrastructure.

³³ The *Western Corridor Recycled Water Scheme* project, which was approved by the previous Government.

³⁴ Namely, *Bega to Yellowpinch Transfer Pipeline* and *Eurobodalla*, which were both approved by the then Minister for the Environment and Water Resources.

Figure 2.2**Funding of election commitments across program pathways**

Source: ANAO analysis of DEWHA data (as of 30 June 2009)

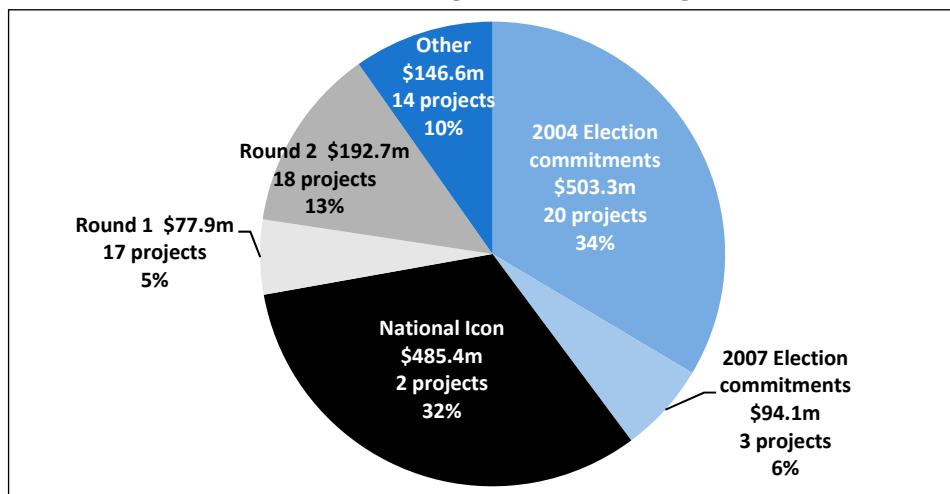
Distribution of program funding

2.14 Across the program, some 40 per cent of committed program funding (\$597.4 million) was awarded to projects announced as 2004 and 2007 election commitments (see Figure 2.3).³⁵ By contrast, 18 per cent of program funding (\$270.6 million) was allocated to projects from the two open funding rounds—despite the previous Government’s intentions to use ‘competitive bidding’ mechanisms to select projects after the First Stage. Of the remaining funding, 32 per cent (\$485.4 million) was allocated to two National Icon projects (which were not election commitments), and 10 per cent of funding (\$146.6 million) was allocated to ‘Other’ projects.

³⁵ Some 20 projects announced as 2004 election commitments were approved by the previous Government, and three projects announced as 2007 election commitments by the current Government.

Figure 2.3

Proportion of committed funding across the program



Source: ANAO analysis of DEWHA data (as of 30 June 2009)

ANAO's sample

2.15 The ANAO examined the assessment and approval processes for a sample of 20 projects, which broadly reflected the overall distribution of program funds. The sample included:

- 11 election commitments³⁶;
- two National Icon projects;
- two 'Other' projects; and
- five projects from the open funding rounds.

Assessment and approval of election commitments³⁷

2.16 During election campaigns, Ministers and other government and non government candidates announce party election policies and commitments as part of their electoral platform. Except where a Minister with the necessary authority has approved spending for the relevant project, party election

³⁶ Six from the First Stage, one from the National Icon stage, and four from the open funding rounds.

³⁷ The funding of election commitments within grant programs has been discussed in recent ANAO performance audit reports; and the Constitutional and legislative context is the same for the WSA program. See, for example, ANAO Report No. 14 2007–08, *Performance Audit of the Regional Partnerships Programme*.

policies and other election commitments represent political undertakings to provide certain funding, services or facilities in the event the relevant party is elected or re-elected to government. Accordingly, following an election, returning or newly appointed Ministers:

- are empowered to make decisions and are entitled to consider all options, including whether and to what extent they should approve funding for projects announced as election commitments; and
- must satisfy the requirements of relevant legislation governing the expenditure of public money.³⁸ This includes making reasonable inquiries to satisfy themselves that the proposed expenditure represents an efficient and effective use of public money.

2.17 As noted in paragraph 1.16, there have been recent changes to the financial and administrative frameworks that govern the provision of grants. However, these changes were not in place for the majority of funding decisions made under the WSA program.

NWC's approach to assessing election commitments

2.18 The NWC's approach to assessing election commitment projects in the First Stage was that it would not 'second guess' the Coalition Government's chosen projects. Instead, the NWC advised the former Prime Minister that it would subject the projects to basic due diligence and assess them against the criteria for that stage—which included the extent to which project-specific conditions in the election commitments were met. The NWC also advised the former Prime Minister that:

Commissioners have been made aware of the Government's intention to deliver its election commitments. Accordingly, their advice on projects to which the Government has already committed will focus on suggestions for improvements and better alignment with the NWI, rather than acceptance or rejection of a project in its entirety.

2.19 The NWC's approach of providing advice to improve projects was also applied to election commitments (of both the previous and current governments) that were funded under all subsequent pathways. This approach

³⁸ Principally the FMA Act and Regulations (especially Regulation 9, which relates to the approval of spending proposals).

acknowledged the Governments' intention to deliver on their election commitments, while also recognising that funding decisions under the program were the prerogative of the responsible Minister.

Assessment outcomes

2.20 The ANAO confirmed that all 11 election commitments within the audit sample had been assessed by the NWC against the criteria relevant to the particular funding pathway for the program. In all cases, the projects went through the key stages of the assessment framework outlined in Figure 2.1. Following the assessment, the NWC recommended to the responsible Minister³⁹ that:

- seven projects receive funding based on merit—*Wimmera Mallee Pipeline, Achieving Sustainable Groundwater, Waterproofing Northern Adelaide, Macalister Irrigation District Channel Automation, Mackay Wastewater Recycling, Virginia Pipeline Extension Scheme* and *Mount Lofty Sustainable Water Management*;
- one project receive funding, but at a much lower amount than that sought by the proponent—*Ballarat Goldfields Superpipe*; and
- three projects receive funding, but only on the basis of the election commitment, not on the merits of the projects—*NQ Water, Statewide Wastewater Recycling* and *Waterproofing the South*.

Election commitments not recommended on merit

2.21 The three projects that did not receive favourable assessments from the NWC were originally meant to be considered under the First Stage of the program, which was reserved for the Coalition Government's 2004 election commitments. However, none of these projects were at a sufficiently advanced stage of development to be submitted under the First Stage. As a result, one project was submitted under Round 1 of the program, and two projects under Round 2. All three projects were assessed against the more rigorous selection criteria for the open funding rounds, and all projects failed to meet the criteria

³⁹ For 10 of the 11 election commitments, projects were recommended to and funding was approved by the former Prime Minister. For the *Ballarat Goldfields Superpipe*, advice was provided to the then Minister for the Environment and Water Resources and funding was approved by the current Minister for Climate Change and Water.

for these rounds. Table 2.1 sets out excerpts of the NWC's advice to the former Prime Minister on these projects.

Table 2.1

Excerpts of NWC advice to the former Prime Minister on three election commitments

Project	NWC advice to the former Prime Minister	Funding approved
NQ Water (Round 1)	<i>'The project did not advance the objectives and outcomes of the National Water Initiative as much as other projects and may not be fully consistent with the NWI in terms of pricing'</i> In addition to the NWC advice, the Department of the Prime Minister and Cabinet ⁴⁰ provided advice to the former Prime Minister that the project only narrowly supported the objectives of the AGWF and was, at best, only marginally competitive.	\$40m
Statewide Wastewater Recycling (Round 2)	<i>'The proposal was poor quality in terms of the WSA program objectives and its NWI outcomes and it would not be recommended for funding if it were not an election commitment'</i>	\$20m
Waterproofing the South (Round 2)	<i>'In the absence of an election commitment, the proposal would not be recommended for funding on merit as it is not particularly innovative, the magnitude of environmental and other public benefits is difficult to determine and the value for money is uncertain as a result'</i>	\$34.5m
Total		\$94.5m

Source: NWC/DEWHA and the Department of the Prime Minister and Cabinet documents

2.22 Although all three projects lacked sufficient merit to justify funding under the competitive rounds, the NWC's standard practice for election commitments was to recommend a level of funding that either satisfied the election commitment, or, if no set amount was promised by the then Government, reflected its assessment of the risks and benefits of the project. This was an appropriate approach for the NWC to take in these circumstances.

Approval of funding

2.23 All 11 election commitments that were assessed by the NWC, including the three projects that failed competitive assessment, were subsequently awarded total funding of \$548.7 million by the responsible Minister. In two

⁴⁰ In addition to the former Prime Minister being the responsible Minister for the first three years of the program, the NWC was originally part of the Prime Minister and Cabinet portfolio.

cases the amount of funding approved was materially higher than that recommended by the NWC.⁴¹ One of the 11 projects (*NQ Water*) was not formally approved by the former Prime Minister, as required under the Act. In this case, the project was publicly announced by the former Prime Minister, but was not followed up by written approval, despite multiple requests by the NWC to obtain the approval.

2.24 As previously acknowledged, the responsible Minister (who at the time was the former Prime Minister) had the authority to award funding under the program, including for projects assessed by the NWC as not meeting the criteria and objectives of the program. In making funding decisions, the Minister was entitled to rely on sources of advice other than from the NWC. At the time of making these decisions, the Minister was not required to document any additional advice sought or to provide justification for awarding funding. However, the decision to fund these projects placed greater emphasis on the need for ongoing project risk management, to ensure that intended water benefits were realised and committed program funds were spent effectively. To this end, after funding was approved, additional conditions were imposed by the then Minister for the Environment and Water Resources on all three projects. These conditions were incorporated into the relevant proponent's funding agreement.⁴²

2.25 The *Commonwealth Grant Guidelines* issued in July 2009 now impose a range of requirements on Minister and officials, which are aimed at improving the transparency and accountability of decision-making when awarding grants. As well, the FMA Regulations have been amended to require approvers of spending proposals—which, for the WSA program, is the Minister—to record the substantive reasons for the approval, in addition to the factual terms of the approval (Regulation 12). This requirement applies to all grants, including those grants funded on the basis of election commitments.

⁴¹ *NQ Water* was awarded \$40 million by the former Prime Minister, whereas the NWC recommended \$32.5 million; and the *Ballarat Goldfields Superpipe* was awarded \$90 million by the current Minister, whereas the NWC recommended \$31 million.

⁴² The former Prime Minister was originally responsible for the program. Changes to the Administrative Arrangements Order resulted in responsibility being assigned to the then Minister for the Environment and Water Resources.

Progress of unfavourably assessed projects

2.26 As discussed later in this chapter, the assessed merits of proposals do not necessarily determine the ultimate success of projects, once funding is provided. Two of the election commitments that the NWC assessed as being unfavourable have since gone on to generate water benefits in their regions (*Statewide Wastewater Recycling* and *Waterproofing the South*). However, as the following case study illustrates, the decision to award funding to a project that was assessed as not being adequately developed can result in any potential water benefits being significantly delayed, contrary to the intended purpose of the program.

Case Study 1: The NQ Water/Townsville Water Treatment Upgrade \$40 million

Prior to the 2004 election, the then local Federal Member announced funding of \$32.5 million for this project. However, in meetings with the NWC, the proponent (a water utility) acknowledged it did not understand that it would be required to submit a proposal in order to obtain the promised funding. A proposal was eventually received under Round 1 of the program. The proposal was rated poorly by the NWC, but was ultimately recommended for funding of \$32.5 million solely on the basis of being an election commitment. The Department of the Prime Minister and Cabinet also expressed doubts about the merit and value of the project. The former Prime Minister approved funding of \$40 million.

After expending \$800,000 on the project, the proponent subsequently merged with two local councils, and a further study was conducted that found the proposed project could be deferred until 2017 if water demand management techniques were implemented. The project was placed on hold by the new Council while a new and, in the NWC's opinion, better project was developed—the *Wastewater Diversion Pipeline, Pump Stations and Associated Work* project, which is part of Townsville City Council Integrated Regional Water Strategy. In December 2008, the current Minister awarded the unspent funding (\$39.2 million) for use toward this project, and a funding agreement was signed in June 2009.

Funding of National Icon water projects

2.27 As previously noted, the selection criteria for National Icon projects were not made public, but were outlined in a letter from the former Prime Minister to the then Premiers/Chief Ministers inviting them to nominate projects for funding. Funding under this pathway was available only to State and Territory governments, and was aimed at projects that provide significant and 'transformative' water benefits.

2.28 One of the issues raised by the NWC during its assessment of proposals for the National Icon pathway was that most of the large projects nominated by jurisdictions were likely to proceed with or without Australian Government funding. In this context, the NWC advised the then Minister that:

the level of AGWF⁴³ grant funding sought by jurisdictions exceeds the level of grant funding that can be justified and, if approved at the grant levels sought, would represent an indefensible subsidy to urban water users, inconsistent with the NWI.

This comment applied to two projects reviewed by the ANAO—the *Western Corridor Recycled Water Scheme* (see Case Study 2), one part of a \$9 billion water grid for South East Queensland, and the Ballarat section of the Goldfields Superpipe, which was already being constructed to deliver water supplies to Ballarat, following the completion of the Bendigo end of the pipeline.

2.29 For the *Western Corridor* project, the NWC determined that even though the scheme was going ahead, some WSA funding was justified based on the high demonstration value of the project, which is one of the largest of its kind in the world. The NWC proposed funding of \$247.6 million to the then Minister, whereas \$408 million had been sought by the proponent. The amount proposed by the NWC took into account an assessment of the project's technical and financial viability by an external consultancy firm. The NWC advised the then Minister that the lower amount represented a 50 per cent contribution to the elements directly relating to purified recycled water. This funding was consistent with the 50:50 cost sharing ratio used for WSA projects in other states. The NWC also noted that the 'benefits do not justify a \$408 million Australian Government grant contribution'. Following consideration by the former Government, the then Minister awarded the full \$408 million sought, and provided the funding before the end of 2006–07.

2.30 For the *Ballarat* project, the proponent requested \$90 million, but the NWC proposed funding of \$31 million, which the then Minister approved and formally offered to the proponent in August 2007. The funding was to provide a transitional price path for the local water authority over five years. However, the Labor party, whilst in opposition, announced in March that year, a commitment to provide funding of \$90 million to the project. It re-affirmed this commitment going into the 2007 election. This election commitment was subsequently honoured by the current Minister. The funding deed for this project was executed in June 2008, one month after the pipeline was completed.

⁴³ The \$2 billion Australian Government Water Fund.

Case Study 2: *Western Corridor Recycled Water Scheme*

This project provides purified recycled water from Brisbane waste water treatment plants for power stations as a substitute for drinking water; and, if required for introduction into the drinking water system through a major water storage. The project is one of the largest recycled water projects in the Southern hemisphere, and is part of a much larger water grid for South East Queensland. The project is being delivered by a company that is wholly owned by the Queensland Government. The total cost of the project is \$2.5 billion, with a contribution of \$408 million from the WSA program. The parts of the project being funded by the Commonwealth have been completed and two treatment plants (at Gibson Island and Luggage Point) have a combined capacity to deliver up to 116 megalitres of recycled water per day.



The Queensland Government has established a trigger point for storage levels below which recycled water will be introduced into the drinking water supply. Following recent good rainfalls in South East Queensland, there has been no need to introduce the recycled water into the drinking water supply. In 2009, the project was named "Water Project of the Year" by Global Water Intelligence.

2.31 Both the *Western Corridor* and *Ballarat* projects were initiated in response to serious water shortages and were priority projects in their regions. Both projects have been completed and are delivering ongoing benefits. The NWC's concerns about the level of funding sought by proponents reflected the fundamental principle of grant administration that Commonwealth funding should help achieve something worthwhile that would not occur without the grant assistance.⁴⁴ Within this context, it was not readily apparent whether the higher amount of funding has resulted in significant additional water benefits.⁴⁵ In addition, the NWC advised that the

⁴⁴ ANAO *Administration of Grants* Better Practice Guide, May 2002, p. 44.

⁴⁵ For example, for the *Western Corridor* project, the Queensland Government initially proposed that the funded component of the project would produce up to 42,000 megalitres a year (116 ML a day), for which the NWC suggested funding of \$247.6 million. The \$408 million awarded to the project did not change the amount of water to be produced by the proponent.

level of funding for each project was inconsistent with a key principle of the NWI—that is, not subsidising core water infrastructure.⁴⁶

Projects funded outside a formal funding round

2.32 Across the program, a total of 16 projects were funded outside the four formal funding rounds (that is, the First Stage, the two open funding rounds and the National Icon stage). These projects have been classified by the NWC as ‘Other’, and can be grouped into five categories:

- projects announced by the then Minister or former Prime Minister before a formal application was received by the NWC, or a detailed assessment undertaken (*Wyong-Mardi Link* \$80.3 million, and *Goulburn Emergency Pipeline* \$20 million);
- a project for which the NWC recommended a maximum of \$2 million, which the then Minister initially approved; however, shortly thereafter, the former Prime Minister approved a further request from the then Minister for \$10 million (*Rainfall Enhancement Trials*);
- projects submitted under the open funding rounds that failed either eligibility or detailed assessment, and were subsequently re-submitted with slightly revised proposals, and approved by the then Minister (*Bega-Yellow Pinch* \$10 million and *Eurobodalla* \$15 million);
- a group of ten small projects, totaling \$10.3 million, approved after the 2007 election, including projects announced by the Coalition Government in the Eden-Monaro electorate two days before the 2007 election was called, which were honoured by the incoming Minister; and
- one project submitted to the NWC from the NSW Minister for Natural Resources, which was supported by the NWC and received \$1 million funding approved by the former Prime Minister (*Darling River Water Saving Feasibility Study*).

⁴⁶ The NWC considered that subsidisation of core water infrastructure was contrary to the user pays principle of the NWI, where water utilities have the capacity to recover costs of water supply augmentation projects through increased water charges.

2.33 Of the \$146.6 million of funding committed to these projects, some 90 per cent was awarded in the period from May to October 2007 prior to the November 2007 election. The remaining 10 per cent was allocated in the year after the election.

2.34 As previously noted, there were no specific guidelines or criteria developed for these projects, and the NWC was not given the opportunity to conduct a thorough assessment on all projects before funding was awarded by the responsible Minister. This approach represented a departure from the previous Government's intention to use 'competitive bidding' for all stages of the program after the First Stage. Moreover, the decision to announce funding for two projects before any assessment was undertaken does not align with accepted grant administration processes. The recently published *Commonwealth Grant Guidelines* now require that Ministers do not approve grants without first receiving agency advice on the merits of the proposal.⁴⁷

2.35 The *Wyang-Mardi Link* and *Rainfall Enhancement Trials*, which accounted for 62 per cent of funding for the 'Other' projects, were examined in detail as part of the ANAO's sample. For both projects, the proponents made approaches directly to the then Minister, and the ensuing approval process was significantly accelerated compared to other projects funded under the program. In both cases the funding decision did not reflect the advice of the NWC, with the proponents being awarded 100 per cent of budgeted project costs—despite proponent contributions being a key consideration in all previous funding decisions. Further details on each project are provided below.

Wyang-Mardi Link

2.36 Funding for the *Wyang-Mardi Link* project was first raised in a letter to the then Minister from the federal Members of Parliament (MPs) of two electorates in May 2007. The MPs suggested that the Commonwealth fund 50 per cent of the cost of a proposed \$85 million project.⁴⁸ The NWC advised the then Minister that:

⁴⁷ See paragraph 3.19 of the *Guidelines*, p. 13.

⁴⁸ The aim of the project is to build a pipeline from the Mardi dam to the larger Mangrove Creek dam to enable increased water extraction from the mouth of the Wyong River, on the central coast of New South Wales.

- an application had not yet been received;
- there was no current open round of funding under the WSA program;
- based on very preliminary information about the proposal, it appeared unlikely to meet current criteria for WSA as it had little innovation or national demonstration value; and
- funding of the proposal may be contrary to the NWI principles of full cost recovery (because it is subsidising core water infrastructure).

The day after the NWC provided this advice, funding of \$80.3 million was announced by the former Prime Minister on 31 May 2007, eight days after the letter from the local MPs.

2.37 The then Minister formally approved the funding, announced by the former Prime Minister, in August 2007, and a funding agreement was developed by the NWC, and executed in November 2007. However, the project has suffered from delays and technical difficulties, which saw the budgeted cost increase from \$80.3 million to \$207 million. The proponent subsequently requested an additional \$10 million in funding, which was refused by the current Minister on the advice of DEWHA. The proponent has re-scoped the project and reduced the projected cost to approximately \$170 million. Actual construction of the project is yet to commence and it is uncertain if the project will be completed before the WSA program end date of 30 June 2011.

2.38 Overall, the funding committed to the *Wyang-Mardi Link* project has yet to deliver any local or national water benefits, as intended under the program. In addition, the project was approved before any formal assessment had taken place and in the knowledge that it was unlikely to meet the criteria for the WSA program and was inconsistent with the NWI. The project was also allocated approximately twice that originally requested by representatives of the proponent, and 100 per cent of the original project cost. The significant level of funding committed meant that potentially more competitive projects that were under consideration by the NWC at the time could not be progressed.

Rainfall Enhancement Trials

2.39 After first approaching the then Minister six months earlier, the Australian Rainfall Corporation submitted a proposal to the NWC requesting \$48.6 million in funding in August 2007. The NWC evaluated the proposal and commissioned an independent technical review of the proposed rainfall

enhancement technology. The independent technical review was highly skeptical noting:

- the proposed mechanism was at variance to known properties and understanding of the atmosphere; and
- during a demonstration in south-eastern Queensland, much of the rainfall increase was up-wind from the Atlant generator (the rainfall enhancement technology), whereas it would be expected to be exclusively downwind.

Nevertheless, the review concluded that, given a suitably rigorous scientific trial for a period of at least 12 months, there may be some value in determining if the rainfall enhancement method had any effect. The NWC agreed with this review and recommended up to \$2 million for a validation test to be conducted by a credible scientific organisation (such as the CSIRO). The NWC also advised the then Minister that it remained unconvinced on the scientific basis of the proposal and that WSA program funding was already fully committed.

2.40 The then Minister initially agreed with the NWC's advice and approved up to \$2 million for the validation test. However, the day after the 2007 election was publicly announced, the then Minister wrote to the former Prime Minister requesting an additional \$8 million (for total funding of \$10 million) for a more expensive trial of the science over a shorter timeframe. The additional funding was approved and the project was announced the next day, before the caretaker period commenced.⁴⁹

2.41 The funding agreement for the *Rainfall Enhancement Trials* project was signed during the election campaign, 28 days after being approved. Just over a month after the election, the current Minister wrote to the NWC seeking urgent advice as to whether the project should continue, in particular whether further expenditure would be an effective use of government funding. The NWC reiterated its earlier advice, noting that short duration field trials are unlikely to be able to provide any degree of scientific certainty and recommended that the project be terminated. The current Minister agreed, and the project was terminated, with final costs funded by the Australian Government amounting to \$5.5 million.

⁴⁹ The 2007 election was publicly announced on 14 October 2007 and the additional funding request was sent and approved on 15 October 2007. The caretaker period commenced on 17 October 2007.

2.42 Although the WSA program aims to accelerate the development and uptake of smart technologies and practices in water use across Australia, a key aspect of developing new technology is that it be based on verifiable science. For *Rainfall Enhancement Trials*, the then Minister approved a project for a considerably higher level of funding than recommended by the NWC, despite doubts being expressed regarding the scientific basis of the project. In addition, any benefits in determining the veracity, or otherwise, of the proposed technology were reduced when the timeframe of the trial was shortened. No water benefits were received for the expenditure of \$5.5 million.

Competitively assessed under the open funding rounds

2.43 The proposals received in Rounds 1 and 2 were competitively assessed against published criteria. Applications had to be submitted by certain deadlines, and NWC staff assessed the proposals as they arrived, rather than working with applicants to improve the quality of their proposals—which it often did for the proponents who submitted proposals through the other pathways.

2.44 The published guidelines for the two open funding rounds stated that preference would be given to projects that produced significant, on-the-ground benefits, with the preferred minimum funding contribution to be over \$1 million.⁵⁰

2.45 The assessment process for the proposals submitted in the two open funding rounds included all major steps outlined in Figure 2.1—that is, eligibility checks, detailed assessment, due diligence and Commissioners' consideration and recommendations to the responsible Minister. NWC staff recommended projects to the Commissioners based on how closely they met the eligibility and the detailed assessment criteria. For Round 1, the Commissioners ranked projects into four categories—not recommended; low priority; further discussion; and recommended. In recommending projects for funding, the NWC took account not only of the merits of individual projects, but also adopted a 'portfolio perspective' to ensure that the mix and balance of projects and funding reflected strategic priorities relating to the NWI.

⁵⁰ The guidelines also state that highly relevant projects that seek less than this level of funding may be considered for assistance and this might include a project definition phase of a larger eventual project.

2.46 A significant number of projects were eliminated at different stages of the assessment process for both rounds, with less than 15 per cent of proposals (some 49 projects) being awarded funding by the former Prime Minister.

Changes in the assessment framework between rounds

2.47 For Round 2 project assessments, the NWC rated each eligibility and detailed assessment criterion. Following the eligibility assessment, projects were rated as low, medium, or high priority, and this rating was used to determine which projects progressed to the detailed assessment stage. Once all projects within Round 2 were rated, they were then ranked according to their final scores⁵¹, and submitted to the Commissioners in this form. NWC staff provided Commissioners with the final assessment of all projects within the round, including projects deemed to be ineligible. The former Prime Minister was also provided with the assessment outcomes for all projects, both recommended and not recommended.

Assessment outcomes

2.48 The ANAO's sample included the following five projects that were submitted, assessed and approved through the two open funding rounds:

- Round 1—*Capricorn Coast Water Supply*, \$16.5 million; *Redevelopment of the Dalby Water Supply*, \$5.7 million; and
- Round 2—*Tasmanian Metering*, \$7.9 million; *NSW Hydrometric Network Expansion*, \$6 million; and *Beenyup Groundwater Replenishment Trial*, \$19.4 million.

2.49 The ANAO confirmed that all five proposals were received by the due date, and had been subject to an assessment against the relevant criteria. In all cases, the assessment process followed the key steps in the assessment framework. However, the quality of the documentation to evidence that each step had been performed varied across the projects. In particular, the *Capricorn Coast* proposal proceeded on to detailed assessment even though the eligibility assessment rated the project as low priority, bordering on being ineligible. No explanation was provided as to why this project proceeded to the next stage of detailed assessment. The former Prime Minister subsequently

⁵¹ The final score summed up the ratings assigned to each criterion.

requested that the NWC provide ‘further justification’ before funding could be approved. Further assessment by an external expert identified additional environmental benefits of the project, which resulted in a stronger overall assessment. Once resubmitted, the project was approved for funding. All five projects were formally approved for funding by the former Prime Minister.

Progress of favourably assessed projects

2.50 As previously noted, the assessed merits of proposals do not necessarily determine the ultimate success of projects, once funding is provided. Three of the five projects that received favourable assessments by the NWC have gone on to experience problems, following the offer of funding. In brief:

- *Dalby Water Supply* was terminated by mutual agreement between the parties;
- *Tasmanian Metering* is significantly behind schedule, and was being considered for termination, but has now been reduced in scope; and
- *Hydrometric Network Expansion* experienced extensive delays in signing its funding agreement (20 months), and further delays of around seven months in achieving its first milestone.

Consistency and fairness of assessments and funding decisions

2.51 A key consideration in the design and administration of a grant program is to establish fair and transparent selection processes, to demonstrate the equitable treatment of applicants, and to promote desired program outcomes.⁵² For the WSA program, which had five distinct funding pathways, some with different selection criteria, the expectation of fair and consistent selection processes applies more directly to projects within each pathway, rather than across the program as a whole. That said, assessment and funding processes should align to the program’s stated objective, and be structured in a way to minimise the risk of inequitable treatment of proponents.

⁵² ANAO *Administration of Grants* Better Practice Guide 2002, pp. 42–43.

Open funding rounds

2.52 Since a large number of applications were eliminated by the NWC in the two open rounds, the ANAO examined a sample of 17 projects to determine whether assessments were conducted in a consistent and transparent manner. Overall, there was generally sufficient documentation to explain why proposals were not supported for Round 2. However, it was less clear for some Round 1 projects whether a thorough assessment had been undertaken. In one case (*Werribee Water Reclamation*), no eligibility assessment was found on file, although the detailed assessment was available. In other cases, key information was missing, including the officer's recommendation on whether the project should pass a particular assessment stage. The better quality documentation for Round 2 was the result of assessment information being held on an electronic database (called Clarity), which was introduced after Round 1.

2.53 There was also evidence of an inconsistent approach in cases where NWC staff considered it 'unclear' whether an eligibility criterion had been met (as opposed to being 'met' or 'not met'). In some instances, proponents were either asked for more information, or given the benefit of the doubt and advanced to the next stage of assessment. But in other circumstances, proponents were not given the opportunity to provide further information, and their proposals were instead deemed ineligible. This type of inconsistency was observed in relation to the NWC's assessment of the 'National interest benefits' test, a criterion which was clearly not met by some proponents, but they went on to receive funding, while other proponents missed out.

Preferred minimum funding contribution of \$1 million

2.54 The rejection of some applications through the two open funding rounds due to projects lacking national benefits (that is, being too localised or lacking demonstration value) was also inconsistent with some funding decisions made across the other pathways. Across the program, a total of 14 projects have been awarded funding of \$1 million or less, eight of which were funded under the 'Other' pathway. In one case, the current Minister honoured a 2007 election commitment by the previous Government and awarded \$500 000 to fund the construction of an effluent reuse scheme at a golf club in Tumut (a small town in the Snowy Mountains region). This funding was provided despite DEWHA's advice that:

The project would contribute in a limited way towards the outcome of encouraging the reuse and recycling of wastewater. However, it would not be

regarded as a high priority against the [WSA] criteria as the degree of innovation is low.

In contrast, some projects that were eliminated by the NWC in the open funding rounds were of a much larger scale and involved funding well above the \$1 million threshold—the preferred minimum for the two open funding rounds. Although the selection criteria were not the same across the program, decisions to fund ‘Other’ projects⁵³, such as the effluent reuse scheme, had the potential to diminish confidence in the program’s assessment and selection processes.

Conclusion

2.55 Overall, the NWC established, and generally followed, sound processes and practices for assessing the merits of funding proposals against approved eligibility and assessment criteria—although aspects of Round 1 could have been better documented. Both the NWC and DEWHA have provided advice to the responsible Minister where proposals were assessed to be less competitive against other projects and/or inconsistent with the NWI.

2.56 The responsible Ministers at the time of approving funding did not accept this advice in all cases, as was their prerogative, providing they were satisfied that the expenditure was in accordance with government policy and represented efficient and effective use of public money. Under the rules applying at the time the majority of funding decisions were made, there was no requirement for Ministers to document any additional advice sought, or the specific reasons for approving funding and no such documentation was evident from departmental records. The *Commonwealth Grant Guidelines*, effective from 1 July 2009, have strengthened the administrative arrangements applying to the assessment and approval of grants. While not interfering with a Minister’s right to decide on the allocation of grants, there is now an expectation for greater transparency and accountability of funding decisions. Although the WSA program is now substantially committed, any further funding decisions must be in accordance with these new *Guidelines*.

⁵³ As previously indicated, there were no specific guidelines or criteria developed for the projects under the ‘Other’ pathway.

3. Establishing Funding Agreements

This chapter examines the NWC/DEWHA's processes for establishing funding agreements with proponents and managing subsequent variations to those agreements, including cost increases.

Introduction

3.1 Once the responsible Minister had approved funding, the NWC and DEWHA developed and executed funding agreements with proponents. Well-developed funding agreements support the effective management of grants and provide the basis on which project objectives can be monitored and outcomes evaluated. Some 74 agreements had been signed as of 30 June 2009.

3.2 The ANAO examined the NWC/DEWHA's processes for:

- developing and executing funding agreements with proponents, including the time taken to finalise agreements following the offer of funding; and
- approving variations to funding agreements, while managing any resultant impacts on program timeframes, funding and outcomes.

Offer of funding

3.3 Proponents received a letter of offer stating the amount of funding awarded, and a draft agreement for consideration. The letter of offer included any special conditions imposed on the proponent. These were typically aimed at advancing key reforms under the NWI or managing project-specific risks.

3.4 To proceed with the offer of funding, proponents were required to confirm acceptance of both the special conditions and the terms of the draft agreement. In some cases, the NWC/DEWHA also signed an MOU with the relevant state government, with the aim of giving broader effect to the NWI reforms (for example, seeking implementation of state-wide water metering policies).

Type of funding agreement used

3.5 One of the NWC's key decisions in administering the WSA program was to require all proponents, including State and local government agencies, to sign a legally binding agreement in order to receive funding. This decision was made on the advice of the Australian Government Solicitor's (AGS) office

and was designed to protect the Commonwealth's interests, given the size of funding contributions to projects. Other types of written agreements, such as an MOU, were not considered to provide the same level of protection in the event that project funds were misused or unspent.

3.6 The NWC initially developed three main templates for the funding agreements, designed for specific types of proponents, which were subsequently modified as the program evolved:

- local government;
- state/territory government; and
- private corporations.

Where proponents were carrying out capital works, additional clauses were placed in the relevant funding agreement that specified the nature of the works and their location.

Structure and content of agreements

3.7 The agreements were divided into two parts: the main body, containing standard terms consistent with AGS requirements, and a schedule, tailored to the specific requirements of each project.

3.8 The ANAO confirmed that all 20 projects in the audit sample had signed, legally binding agreements in place. One variation to this approach was that the NWC signed a Head Agreement with the Victorian Government, with separately signed schedules for all Victoria-based proponents. In all other jurisdictions, the NWC signed funding agreements directly with proponents. Where applicable, each funding agreement included a project schedule that specified the proponent's responsibilities, milestones and payment schedules⁵⁴ and the work to be carried out.

3.9 Although the terms of the agreements varied slightly, depending on the nature of the project and type of proponent, all 20 funding agreements contained clauses that:

⁵⁴ For two projects, milestone and payment schedules were not included at the time of executing the funding agreement. Rather, provision was made for this to be agreed upon at a later date, which was achieved through the submission of a project implementation plan.

- specified the respective obligations of the signatories and, where relevant, the responsibilities of any other funding contributors;
- protected the Commonwealth's investment, for example, in terms of recovering misused or unspent funds;
- were designed to mitigate project risks, including the power to withhold payments when insufficient progress was made or to terminate funding agreements; and
- outlined the specific project objectives to be achieved.

However, project objectives were not always expressed with sufficient precision to assist with subsequent monitoring and evaluation—especially where water savings were being funded. Five agreements used the phrase “*up to [xx] megalitres*” when stating the water savings to be achieved. By contrast, specific water savings were listed in five agreements, and two agreements used the phrase “*at least*” when specifying the water savings to be delivered.

3.10 The amount of water able to be saved for some projects is dependent on rainfall and subsequent inflows to water storages. Therefore, precise water saving targets may not be feasible or easily agreed between the parties. Nevertheless, where possible, a better approach would be for water savings to be expressed as a minimum level (for example, ‘*not less than [xx] megalitres*’), or for a range of water savings to be given (‘*between 50 000 to 60 000 megalitres*’). Such targets would provide greater certainty of the benefits the Commonwealth is funding.

Proponents' views on funding agreements

3.11 Although funding agreements are in place, the majority of proponents did not readily accept the terms in the draft agreement. The resulting negotiations and discussions between the NWC and proponents, which often included separate legal advice being sought, took months and, in some cases, years to conclude (see Figure 3.1). Some proponents also objected to the form of the funding agreement used by the NWC. In particular, senior officials from the Victorian and NSW governments wrote to the NWC and strongly opposed the use of legally binding agreements, noting that this was a departure from previous intergovernmental arrangements that were based on an MOU. A legally binding agreement was also seen to be at odds with the ‘partnership’ approach the Australian Government was seeking to take with water

projects—especially as the Commonwealth was generally making a contribution to projects rather than funding them outright.

3.12 In response, the NWC advised that it would work collaboratively with all parties, but maintained its view that a legally binding agreement was appropriate, noting the competitive nature of the program and the level of protection afforded to both parties. This decision is in line with the ANAO's Better Practice Guide on *Administration of Grants* (May 2002), which states that 'an enforceable agreement should be established, wherever possible'.⁵⁵ However, as discussed in Chapter 4, the legally binding agreements have not always been used to full effect in addressing under-performance by proponents.

Additional conditions imposed on proponents or States

3.13 Additional conditions were imposed on 18 (of 20) projects examined by the ANAO. These were either conditions precedent, which were listed in the letter of offer, and had to be met before the funding agreement could be signed, or conditions subsequent, which had to be met during the term of the agreement. The conditions precedent generally required proponents to confirm matching State funding or other project contributions. In turn, conditions subsequent typically related to meeting the NWI objectives or a project-specific matter. For example, the funding agreement for *Waterproofing the South* specified a State government contribution of \$40 million to be provided by a certain date, failing which the NWC had the right to reduce funding by \$15 million. This condition was met.

3.14 The ANAO confirmed that all 18 proponents accepted the conditions placed on the funding approval. This included providing evidence of other funding contributions, where applicable. Two projects did not have any conditions imposed on them, the *Ballarat Goldfields Superpipe* and the *Wyong-Mardi Link*. For four projects, additional conditions were imposed on the relevant State Government, through an MOU. For example, for the *Capricorn Coast Water Supply*, the NWC signed an MOU with the Queensland Government to secure State government funding and to change the water allocation arrangements for the affected area. This latter requirement was designed to ensure that key benefits of the project could be achieved.

⁵⁵ See p. 50 of the Better Practice Guide, available on the ANAO's website at <<http://www.anao.gov.au>>.

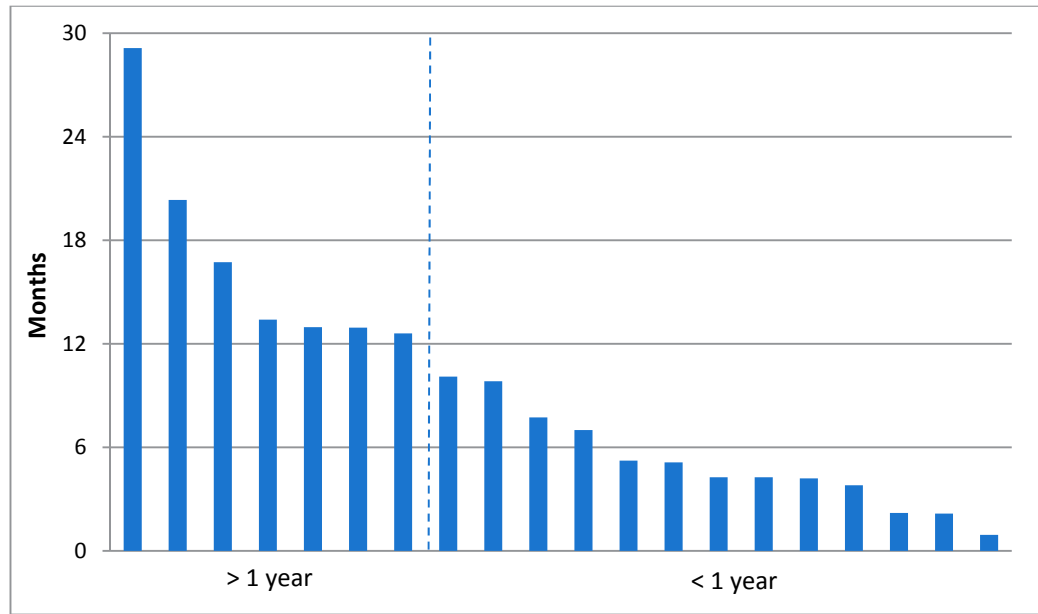
Time taken to sign funding agreements

3.15 Turning project proposals into legally enforceable agreements complete with detailed project schedules was not straightforward, given the size and complexity of projects and the need to maintain good working relationships with proponents. Nevertheless, since program funding was originally scheduled to finish on 30 June 2010,⁵⁶ the timely execution of funding agreements was desirable to maximise the remaining time in which projects could be implemented and the benefits realised.

3.16 For the ANAO's sample of 20 projects, the time taken to sign funding agreements ranged from one to 29 months from the date that funding was approved by the responsible Minister (see Figure 3.1). The average time taken for the sample was over nine months,⁵⁷ with seven projects taking more than 12 months.

Figure 3.1

Time taken to sign funding agreements following the approval of funding



Source: ANAO analysis of DEWHA data

⁵⁶ Funding of \$152 million has since been re-phased to 2010–11.

⁵⁷ This was longer than the average of eight months for the 67 projects that had signed agreements as of 15 January 2009.

Longest delay

3.17 The longest delay occurred for the *Virginia Pipeline Extension Scheme*, a First Stage project, where it took almost two and a half years for the agreement to be signed. The overriding reason for the delay was that the South Australian (SA) Government was unable to meet the commitments in the original project proposal that had been approved by the then Minister—that is, to reduce groundwater use by exchanging groundwater entitlements for recycled water. Part of the delay also resulted from the proponent, SA Water, waiting for the State Government to confirm its share of project funding (\$2.035 million). Unlike most other projects within the program, this had not been agreed before the Commonwealth's funding was offered.

3.18 The NWC recommended that the then Minister withdraw funding for this project, but the Minister directed that further efforts be made to progress the project. Discussions and negotiations took place between the parties to reach agreement on an alternative proposal—which in the end involved a compromise on the original proposal.⁵⁸ Once the agreement was signed, the proponent requested two variations to the agreed timeline, both of which were approved by the then Minister. Although the construction phase of this project has been completed, the water benefits have yet to be fully realised.

3.19 Overall, the cumulative delays on this project indicate that it was funded prematurely and was not at a sufficiently advanced stage of development to satisfy the assessment criterion for the First Stage—of being able to be substantially implemented in 2004–05.

Other delayed projects

3.20 A major reason for the delays on other projects, including four of the seven that took more than 12 months to finalise, was the protracted negotiations with State Governments over the nature and terms of the funding agreement (as discussed in paragraph 3.11). In other cases, agreements took longer than expected to finalise because:

⁵⁸ In brief, the local irrigators were allowed to draw groundwater in accordance with their allocations, but an embargo was placed on the leasing or sale of groundwater entitlements. The embargo is to remain in place until a new water allocation plan is developed, which addresses over-allocation of groundwater in the Northern Adelaide Plains.

- projects were not at a sufficiently advanced stage of planning or development, where total project costs could be accurately estimated (for example, *Mackay Wastewater Recycling*);
- the responsible Minister delayed the announcement of funding following the formal offer of funding⁵⁹ (for example, *Hydrometric Network Expansion*); or
- the proponent was required to provide evidence of other funding contributions (for example, *Waterproofing Northern Adelaide*).

3.21 Five of the seven projects where it took more than 12 months to finalise agreements came through the First Stage of the program. These projects were among the first to be developed by the NWC in conjunction with State and Territory governments. As noted earlier, one of the assessment criteria for the First Stage was that projects were able to be substantially implemented in 2004–05. As discussed in Chapter 2, the former Government had a strong commitment to deliver on its 2004 election commitments, but not all of the projects were at a sufficiently advanced stage of development to be implemented during the First Stage of the program, as originally intended. For some of these projects, the elapsed time between the offer of funding and the signing of funding agreements resulted in cost increases and, more generally, to program funding being tied up in projects that were not progressing or delivering required—and much needed—water benefits.

NWC response to delays

3.22 The NWC recognised the impact of delays on its administration of the program. In October 2006, it recommended that the former Prime Minister approve a framework for withdrawing offers of funding, but a formal response was not received by the NWC. The NWC subsequently obtained approval from the then Minister to adopt this framework, effective from March 2007.

3.23 The NWC's policy was to issue a final one-month notice to proponents, if agreements were not signed within four months after the offer of funding was made. The stated intention of this framework was to expedite the signing of agreements, or to conclude negotiations with proponents and invest effort into other projects.

⁵⁹ Until funding was announced, proponents were prevented from publicly discussing the Commonwealth's funding contribution for a project.

3.24 The first three projects to be sent a final notice were *Waterproofing Northern Adelaide*, *NSW Albury Harvesting* and the *Virginia Pipeline Extension Scheme*. The notice had the desired effect for the first project, which was signed within a month of the notice being sent; whereas the second project failed to comply, and the offer of funding was withdrawn. The funding agreement for *Virginia Pipeline* took a further seven months to be finalised. But, as previously noted, the then Minister elected not to withdraw the funding.

Arrangements at DEWHA

3.25 The framework for withdrawing offers remains in place, following the transfer of the program to DEWHA. Nevertheless, significant delays are still occurring. Three projects where funding was offered have yet to sign a funding agreement with DEWHA. The delays on these projects go up to eleven months, which exceeds the five months allowed under the framework for withdrawing funding offers.

3.26 DEWHA has sought to minimise the likelihood and impact of delays for other water programs it administers by providing a draft agreement on its website for the information of potential applicants. Applicants are required to notify their acceptance of the terms of the agreement in submitting an application for funding. This approach is consistent with key principles in the new *Commonwealth Grant Guidelines*, including the need to establish an open and transparent process, while also protecting the Commonwealth's interests and administering programs in a timely and efficient manner.

Variations to signed funding agreements

3.27 Under the funding agreement, proponents are required to submit a variation request where there are changes to the cost, timeline or scope of projects. Any such changes must be consistent with the project's approved objective and with the overall objective of the WSA program.

Approving variations

3.28 All variations in the first two years of the program that involved requests for additional funding were determined by the former Prime Minister, who had not supported the NWC's request to approve variations of up to 15 per cent of the approved project cost. In August 2007, the NWC obtained approval from the then Minister to vary approved project funding up to \$2 million, while also confirming that new funding proposals and sensitive variations would continue to be brought to the Minister's attention. The \$2 million limit was carried over to DEWHA.

3.29 As of 30 June 2009, 12 of the 20 projects in the ANAO's sample had a variation to one or more aspects of the signed funding agreement, which totalled 23 separate variations. The most commonly requested variation, which applied to 10 of the 12 projects, was to amend the approved timeline—either changing the dates of particular milestones, or extending the overall project completion date. In addition to timeline variations, other requests were for re-scoping projects and additional funding to cover cost escalations.

Outcome of variation requests

3.30 Of the 23 separate variation requests, 20 were approved and three were denied. Two of the denied requests related to proponents asking to extend the timeline of the project beyond the original WSA program end date of 30 June 2010 (*Wyong-Mardi link* and *Waterproofing the South*). The third was for more funding (*Waterproofing Northern Adelaide*). For one approved variation (*Waterproofing the South*), the NWC engaged an external advisor to re-assess the re-scoped proposal to ensure that the project still achieved the WSA program objectives, which it did.

3.31 The ANAO confirmed that all variation requests were considered by project officers and approved at the appropriate level—either by a delegated official or the then Minister. One resultant impact of these variations is that program funding of \$152 million has been re-phased to 2010–11, to allow payments to be made on projects that will not be completed by the original end date of 30 June 2010. The NWC and DEWHA have also had to source funding to cover cost escalations on projects—some of which has been obtained from outside the program.

Funding cost escalations

3.32 A reality of grant programs like WSA, which fund large infrastructure projects, is that provision needs to be made for legitimate cost increases on approved projects. However, since the Commonwealth is generally only making a contribution to projects, cost increases can be borne by more than one party.

Contingency fund

3.33 In July 2007, the NWC obtained approval from the then Minister to establish a contingency fund of \$40 million to meet cost escalations on WSA

projects (having earlier engaged a consultant to investigate any potential causes of cost escalations in the water sector).⁶⁰ As noted earlier, cost variations under \$2 million were able to be authorised by the NWC's CEO, but requests above this limit were to be referred to the responsible Minister. As of 30 June 2009, nine projects have received additional funding of \$156 million, which represents just over 10 per cent of total funding. Table 3.1 details the additional funding and the source of funding for each project.

Table 3.1

Funding increases on approved WSA projects

Project	Pathway	Original grant (\$m)	Additional grant (\$m)	% increase	Source of extra funding
Wimmera Mallee Pipeline	First Stage	\$167	\$99	59	Other water program ¹
Achieving Sustainable Groundwater	First Stage	\$55	\$25	45	Additional estimates ²
Mackay Wastewater Recycling	First Stage	\$28.8	\$16.74	58	WSA program
Rainfall Enhancement Trials	Other	\$2	\$8	400	Additional estimates
Beenyup Groundwater Replenishment Trial	Round 2	\$15.75	\$3.65	23	WSA program
Dalby Mine Water Recycling	Round 1	\$3.33	\$2.4	72	WSA program
Smart Approved Watermark	Round 1	\$1.18	\$0.65	55	WSA program
Metropolitan Major irrigators Stormwater reuse project	First Stage	\$2.35	\$0.41	17	WSA program
Remote Reading of Irrigation Water Meters	Round 1	\$2.02	\$0.17	8	WSA program
Total		\$277.43	\$156.02	56	

Note 1: The \$5.8 billion Sustainable Rural Water Use and Infrastructure program, which is part of the Australian Government's *Water for the Future* plan.

Note 2: Additional funding was appropriated by the Parliament.

Source: ANAO analysis of DEWHA data (as of 30 June 2009)

⁶⁰ At the time, four projects were requesting extra funding of around \$10 million.

Largest cost increases

3.34 The three projects with the largest cost increases, amounting to \$141 million, were assessed and approved as 2004 election commitments under the First Stage.⁶¹ The largest increase was \$99 million for the *Wimmera Mallee Pipeline*. This was due to an increase of up to \$248 million in anticipated costs, resulting from a two year gap between the development of the original business case to the start of construction. As well, a buoyant pipeline construction market was putting upward pressure on costs.

3.35 The increased funding was obtained from a separate water program administered by DEWHA, as the WSA program was fully committed and there were insufficient funds in the contingency reserve to cover an increase of this size. The additional funding commitment for up to half (\$124 million) of the \$248 million increase in cost was conditional on matching funding from the Victorian Government, which at that point had publicly committed an extra \$99 million to the project. The funding was approved by the current Minister as a 2007 election commitment.⁶² A condition was placed in the funding agreement and signed under the former Government, for the Victorian Government to bear the risk of cost overruns beyond the total project cost of \$501 million. Requirements for further increases in funding (beyond the \$99 million already committed) have not eventuated to date, as project costs have been less than expected.

3.36 Although the additional funding for *Wimmera Mallee* has been secured, an alternative approach for DEWHA to consider in future is to provide initial funding approval for the scoping phase of large projects. This approach would allow more reliable information on project costs and timeframes to be provided, to better inform funding decisions for later stages of projects.

Other projects with cost increases

3.37 Cost increases on other projects arose from a range of factors including:

⁶¹ As previously noted, some of the First Stage projects were not at an advanced stage of development when funding was committed, which resulted in later project variations and cost escalations.

⁶² During the 2007 election campaign, both the former Coalition Government and current Government offered to match State Government contributions of up to \$124 million towards the project.

- broadening of the project's scope to enable the full benefits to be achieved (for example, *Redevelopment of the Dalby water supply* and *Beenyup Groundwater Replenishment Trial*);
- the project not being at an advanced stage and requiring pre-construction activities to be undertaken (for example, *Mackay Wastewater Recycling*); and
- unforeseen external factors (for example, *Achieving Sustainable Groundwater*, where additional funds were provided to partially offset the increased groundwater valuations).

3.38 Six of the nine cost increases were for projects that were part of the ANAO's audit sample. For these projects, cost increases were approved by the responsible Minister, following advice from the NWC. Except for *Achieving Sustainable Groundwater*, increases were matched by other funding contributors. However, the total approved cost increases far exceeded the amount available in the contingency reserve. As well, some of the contingency funding had been committed to new projects. The result was that program funding was almost fully committed, leaving a reserve of \$30 million for the remainder of the program.

2007 election commitments

3.39 During the 2007 election, the Labor party committed to funding a number of projects, assuming there were unallocated funds available. However, since program funds were fully allocated, the current Minister requested DEWHA to identify savings from existing projects in order to fund these commitments. DEWHA advised the new Minister in March 2008 that they were able to find savings of \$65.5 million.⁶³ Of this, some \$54.6 million was taken from funding initially allocated to the *Hawkesbury Nepean River Recovery* project; and the remainder, from two projects for which funding was to be withdrawn. As a result, the *Ballarat Goldfields Superpipe* (\$90 million) was funded under the WSA program, but two other 2007 election commitments were funded under a separate water program administered by DEWHA.⁶⁴

⁶³ DEWHA briefed the current Minister on 20 March 2008 and approval was granted on 5 April 2008.

⁶⁴ *Geelong Shell Recycling* and *Glenelg to Adelaide Parklands Reuse Scheme* were funded under the \$1 billion National Urban Water and Desalination Plan.

Conclusion

3.40 Overall, the NWC/DEWHA have established appropriate funding arrangements with proponents, having regard to the size of the grant, the type of entity involved and the nature of the project. Key aspects of the funding arrangements comply with the principles in the new *Commonwealth Grant Guidelines*, including the guideline that legally enforceable agreements be established with grant recipients wherever possible. However, the time taken to finalise funding agreements with some proponents has delayed the realisation of funded water benefits and has led to cost increases and later variations to projects. This was especially the case for some First Stage projects, which were not at a sufficiently advanced stage of planning when funding was awarded. Overall, this has resulted in program funding being extended by one year, further delaying the benefits to be achieved by some projects. The more significant cost increases and time delays on projects resulted from factors largely outside the direct control of the NWC/DEWHA.

4. Progress Payments and Outcomes

This chapter examines the NWC/DEWHA's processes for monitoring the progress of projects, making milestone payments, and evaluating project and program outcomes.

Introduction

4.1 Once funding agreements have been executed, the ongoing monitoring of projects is necessary to manage financial risks, and to determine whether specified objectives are being achieved. As of 30 June 2009, some eight projects had been completed, another 62 were in progress and three projects had yet to sign funding agreements.

4.2 The ANAO examined the NWC/DEWHA's:

- processes for monitoring the progress of projects, in order to make milestone payments or, where necessary, to manage non-compliance or delays with projects; and
- strategies for evaluating and reporting on the overall program objective, taking into account the progress and outcomes of individual projects and any broader benefits resulting from the program.

Monitoring the progress of projects

Proponents' reporting requirements

4.3 Proponents are required to provide a range of financial and performance reports to enable NWC/DEWHA to monitor the progress of projects and to manage financial risks. These include:

- *progress reports*—which are to be provided when each milestone has been met, and which describe how the project is progressing against agreed timeframes, objectives and budget;
- *annual reports*—budgets, which are to be provided before the start of the financial year, and audited financial statements, which are to be provided following the end of each financial year; and
- *final report and ongoing evaluation reports*—the final report is to be provided within 60 days after the project has been completed, and ongoing annual evaluation reports are also required for most projects.

4.4 In broad terms, progress reports assist the NWC/DEWHA to determine whether project *outputs* are being met, such as the construction of a pipeline. Whereas, the final and ongoing evaluation reports assist the NWC/DEWHA to assess whether project *outcomes* are being achieved, such as the volume of water savings directed to the environment. They also assist the NWC/DEWHA to assess the extent to which project outcomes contribute to the overall objective of the program and advance applicable NWI reforms.

Supplementary monitoring mechanisms

4.5 Other mechanisms used to monitor projects include:

- site visits to project premises, which allow project officers to discuss and, where relevant, site the progress of capital works;
- participation in project committees, which allow project officers to remain up-to-date with project issues (outside of milestone reporting periods);
- obtaining external advice on technical or legal matters; and
- monitoring media reports to keep abreast of local issues.

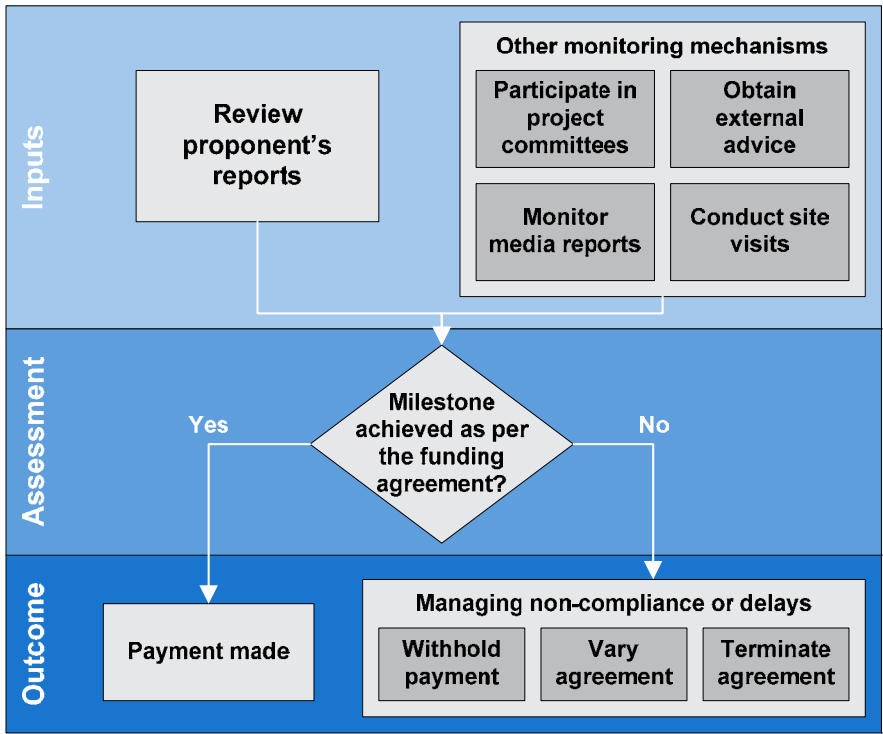
4.6 Together, these mechanisms enable the NWC/DEWHA to determine whether agreed milestones have been met, and therefore whether milestone payments can be made. Conversely, where milestones have not been met, the funding agreements allow the NWC/DEWHA to take a range of actions, including:

- withholding payments, where insufficient progress has been made or where key reporting requirements have not been met;
- varying agreements, where there have been changes to the scope, timeline or funding for projects (as discussed in Chapter 3); or
- terminating agreements and ceasing funding, where progress has stalled or the proponents have breached their legal obligations.

Figure 4.1 provides an overview of the NWC/DEWHA's monitoring mechanisms and administrative outcomes.

Figure 4.1

NWC/DEWHA’s project monitoring mechanisms and outcomes



Source: ANAO analysis of NWC/DEWHA data

Milestone payments

4.7 Where the NWC/DEWHA determine that a milestone has been met, payment is made directly to the proponent, as per the scheduled amount in the funding agreement. Partial payments may also be made where key elements of a milestone have been met, but other components remain outstanding.

4.8 Most payments under the program are made in arrears for work that has already been completed. In some cases, however, proponents receive advance payments, usually paid quarterly. These payments have to be acquitted at the end of each period before any further payment can be provided. Adjustments are made for any interest earned by proponents on the previous payment. One exception to these two payment methods was the *Western Corridor Recycled Water Scheme*, which received a one-off, up-front payment of \$408 million.

4.9 As of 30 June 2009, some \$1.02 billion had been paid to proponents, from total committed funds of \$1.52 billion. A further \$500 million is available to be paid before the program ceases on 30 June 2011.

Payment testing

4.10 For the sample of 20 projects, the ANAO assessed whether key funding requirements have been met, and whether payment risks have been appropriately managed. These requirements or risks included whether:

- any payments were made before the funding agreement was signed, or in excess of the funds committed to each project;
- any payments were made in advance of milestones, and whether progress reports were received before payments were made; and
- all payments were accompanied by a correctly rendered invoice, and authorised by a delegated official.

4.11 No material payment errors were identified and the risks of misused and/or misspent payments have been adequately managed. DEWHA's current practice of making part-payments to proponents where milestones are only partially met is an effective way of managing financial risks, while still allowing projects to progress.

4.12 Overall, the monitoring mechanisms used by NWC/DEWHA to inform its payment decisions were reasonable, given available resources and the relative risks presented by projects. Site visits were not conducted in all cases, especially if projects were progressing well (such as the *Ballarat Goldfields Superpipe*), or did not involve capital works (*Mount Lofty*). However, for those projects where progress has been limited or has stalled, site visits can help to resolve ongoing issues. This worked effectively, for instance, when DEWHA visited and held discussions with the proponent for the *Hydrometric Network Expansion* project, which resulted in the first milestone being met after a seven month delay. The involvement of project officers in project steering committees also provides a useful means of identifying emerging issues, such as changes to timelines or budgets—which are then required to be included in proponents' milestone reports.

Non-compliance with annual reporting requirements

4.13 The main area of non-compliance with annual reporting requirements, which applied to 11 (of 20) projects, was the failure of proponents to provide audited financial statements—at all, on time or in the required format. This

was despite repeated reminders by the NWC/DEWHA. These statements provide independent assurance that funding has been spent only on approved project activities. They are to be provided within 60 business days after the end of each financial year. In practice, NWC/DEWHA allows proponents a further 30 days to provide the statements before it considers the information to be overdue. This extension recognises the difficulties that some proponents may have in engaging auditors during the peak demand period at the end of each financial year.

4.14 Both agencies have largely managed the risk of not having financial statements provided on time or at all by withholding payments until the statements are submitted by proponents. However, for the *Mount Lofty* project, a payment of \$2.97 million was made to the proponent even though no audited financial statements had been submitted for the two previous financial years. This payment was made before the NWC/DEWHA's strategy of withholding payments was put into place. When the audited financial statements were finally provided, they confirmed that the earlier milestone payment was appropriate.

4.15 The majority of proponents in the ANAO's sample also failed to provide annual budgets to the NWC/DEWHA before the start of each financial year. In two cases, proponents did not provide annual budgets at all (*Redevelopment of the Dalby Water Supply* and *Achieving Sustainable Groundwater*). DEWHA has requested that these proponents fulfil their obligations under the agreement. Nevertheless, since the annual budgets are used mainly to forecast expenditure and manage the annual appropriations for the program, the impact on milestone payments has been minimal.

Managing delays on projects

4.16 The funding agreements provide for the NWC/DEWHA to vary or terminate projects, where there are delays with milestones or where proponents fail to fulfil or are in breach of their obligations. As discussed in Chapter 3, there have been multiple variations to the 20 projects examined by the ANAO, some of which were initiated by the NWC/DEWHA through their monitoring of projects. For the program as a whole, these variations have resulted in funding being extended by one year to the year ending 30 June 2011. As noted above, payments have also been withheld or paid in part when milestones have not been met, or only partially met. However, the termination provisions in the agreements have not been used to full effect in

managing projects that have made little, if any, progress since funding agreements were signed.

Terminating agreements

4.17 As of 30 June 2009, a total of four (of 74) agreements have been terminated under the program, two of which were part of the ANAO's sample:

- *Rainfall Enhancement Trials*, which, as noted in Chapter 2, was terminated unilaterally by DEWHA in January 2008; and
- *Redevelopment of the Dalby Water Supply*, which was terminated in April 2009, by mutual agreement between DEWHA and the proponent.

For *Dalby*, NWC/DEWHA had been aware for almost two years that the project had stalled and that milestones were not being met—mainly due to a funding dispute between the project's other funding contributor. Because this project was directly aligned to the program's objective of developing smart technologies, the NWC/DEWHA gave the proponent more time to secure funding, rather than terminating the agreement. While this approach was aimed at achieving desired water benefits, there is an opportunity cost of 'locking up' program funds in projects that show little sign of progressing and delivering tangible water benefits.

4.18 Other projects where the NWC/DEWHA could have taken a more proactive approach to managing extensive delays include:

- *Wyong-Mardi Link* (\$80.3 million)—where the funding agreement was signed in November 2007, but construction had not commenced as of 30 June 2009;
- *NQ Water* (\$40 million)—where the funding agreement was signed in November 2006, but no progress had been made until July 2009 when a funding agreement was signed for a substitute project; and
- *Tasmanian Metering* (\$7.8 million)—where the funding agreement was signed in May 2007, but the project stalled for around 12 months and the scope of activities has since been significantly reduced.

4.19 As discussed in Chapter 3, the NWC/DEWHA developed a framework for withdrawing offers of funding where proponents took unreasonable

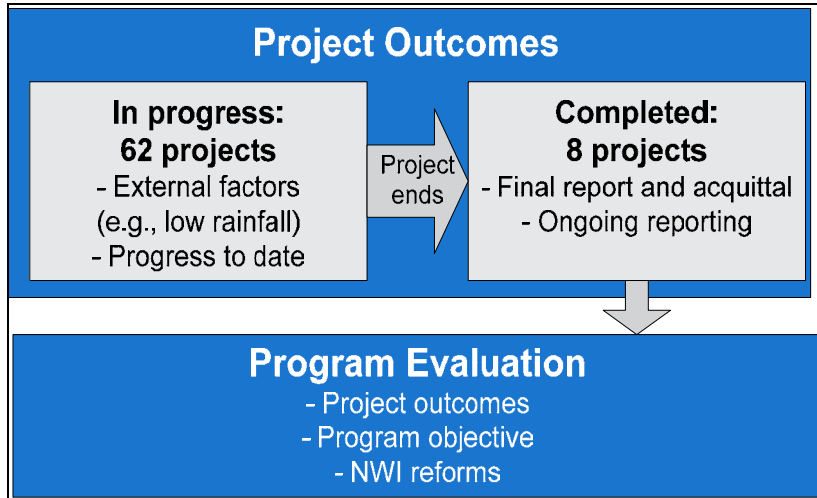
amounts of time to sign funding agreements. The framework recognises the need to invest efforts into other projects if no progress was being made. As funding agreements have termination provisions⁶⁵, a similar approach could be applied to projects where funding agreements have been signed, but water benefits are not being delivered. The funding locked up in stalled projects could be put into the contingency reserve, to help fund legitimate cost increases for ongoing projects, or could potentially be used to fund new projects. Of course, the opportunity to substitute alternative projects declines as the program nears completion.

4.20 The decision on whether projects should be terminated ultimately rests with the responsible Minister. Nevertheless, a more defined framework to guide decisions on when to terminate a funding agreement would allow a better balance to be achieved between individual project objectives and the effective use of program funds.

Achievement of project and program objectives

4.21 The WSA program was introduced in 2004–05 to co-fund projects that provide more efficient and effective ways of using Australia’s water resources. As previously noted, the stated objective of the program is to accelerate the development and uptake of smart technologies in water use. The program also seeks to advance the objectives and outcomes of the NWI—the intergovernmental blueprint for water reform. In turn, the achievement of the program’s objective and relevant NWI reforms depend on the progress and outcomes of individual projects. Figure 4.2 shows the relationship between project outcomes, for both completed and ongoing projects, and the key factors to be considered in a program evaluation.

⁶⁵ In circumstances where a project is delayed beyond reasonable control, or the proponent fails to fulfill or is in breach of any of the obligations under the funding agreement, the department has the right to terminate the agreement under clause 21 or 22 (termination with costs or for default).

Figure 4.2**Project outcomes and program evaluation**

Source: ANAO based on DEWHA data (as of 30 June 2009)

Final report and acquittal

4.22 As noted earlier, proponents are required to provide a final report to the NWC/DEWHA within 60 business days after the completion of the project, the end of the scheduled project period, or upon termination of the agreement. This report can be made public, and is required to describe the outcomes and benefits of the project, including any objectives that have not been (fully) met. All funding provided must also be fully acquitted.

4.23 As of 30 June 2009, eight projects have completed their milestones.⁶⁶ But, at this date, only three projects in the ANAO sample were required to submit their final reports to DEWHA—*Wide Bay Water–Smart Metering*; *Environmental Water Trading System*; and the *Western Corridor Recycled Water Scheme*. For these three projects, the ANAO confirmed that:

- *Wide Bay Water–Smart Metering* has submitted its final report and acquitted all funding, but a third-party independent evaluation report requested by DEWHA is outstanding;

⁶⁶ Out of 74 funded projects as of 30 June 2009, 62 projects are in progress, 8 projects have been completed and 4 projects have been terminated, as discussed in paragraph 4.17.

- *Environmental Water Trading System* has submitted its final report and acquitted all funding. However, the report states that the project was unable to meet its key objective—that is, it was only able to secure 17 megalitres of temporary and 0.5 megalitres of permanent water entitlements, less than one per cent of its 6.1 gigalitre target; and
- *Western Corridor Recycled Water Scheme* has submitted its final report and acquitted all funding. The acquittal showed that the funding of \$408 million was spent over a 12-month period, consisting of 16 payments. Interest of \$16.7 million was earned on the project's account. The audited financial statements confirmed that the interest was applied to the project, as required under the funding agreement.

Ongoing evaluation reports

4.24 Only one of the three projects that have submitted a final report was required to provide ongoing evaluation reports—the *Western Corridor Recycled Water Scheme*. This project was required to report for two years beyond the completion of the project. The other two projects did not have ongoing reporting, given the nature of each project.

4.25 In total, 15 of the 20 projects examined by the ANAO have ongoing reporting obligations (including *Western Corridor Recycled Water Scheme*). For these projects, the ongoing evaluation period ranges from two to five years. This means that the final outcome for some projects may not be known until 2016, some five years after the program is now scheduled to finish. This timeframe has implications for how DEWHA will monitor and enforce compliance with these reporting requirements, and evaluate overall program outcomes.

4.26 Although the final outcome is only known for *Environmental Water Trading System*, this project fell well short of achieving its key objective (the water donation target), mainly because changed economic circumstances and climatic conditions discouraged license holders from donating their water entitlements to the proponent. The impact of external variables on the outcomes of projects is a broader theme for the program, and particularly affects water savings projects that are dependent on rainfall.

Indicative outcomes for projects in progress

4.27 As noted earlier, the majority of projects are in progress and at varying stages of completing their scheduled milestones. In any event, for some of the 20 projects examined by the ANAO, there are indications that the funded water outcomes may not be delivered in the timeframe, or to the extent required—even if the project’s milestones are being completed on schedule.

Water savings objectives

4.28 Within the ANAO’s sample, 12 projects have water savings benefits included in their funded objectives.⁶⁷ In seven cases, the achievement of these objectives is dependent, to some extent, on accessing water from existing storages or from rainfall. One example is the *Wimmera Mallee Pipeline*, which is the second largest project in the program. A key objective of the project is to deliver annual water savings to the environment. However, due to historically low inflows to the reservoirs in the region, the level of water that has been able to be provided for environmental assets is significantly less than the upper limit of 83 000 megalitres annually, as stated in the funding agreement. Instead, the available water has been used to achieve the second objective of the project, which is to provide a greater security of supply of high quality water to rural properties and towns.

4.29 The historically low inflows in this region are related to reduced rainfall, which was not forecasted when this project was proposed for funding. The replacement of open channels with an underground pipeline has significantly reduced seepage and evaporation—and has therefore addressed a major external cost to the environment. However, the resultant benefit that the Commonwealth has funded—the return of saved water to the environment—has not been fully realised to date, and is dependant on the extent that rainfall returns to pre-drought levels. As of 30 June 2009, a total of 31 000 megalitres has been formally allocated to the environment, much less than the upper limit of 83 000 megalitres each year.⁶⁸

⁶⁷ Project objectives are to deliver water savings, transfer water or provide environmental benefits.

⁶⁸ The relevant Victorian Minister has the authority (under the *Water Act 1989*) to determine water allocations within the State, including for environmental purposes.

4.30 The *Macalister Irrigation District Channel Automation* (see Figure 4.3) is another project where Commonwealth funding of \$20 million was provided to achieve the main objective of delivering water savings to the environment. However, there is a significant discrepancy between the quantum of water savings that were originally approved by the NWC for the \$20 million investment (25 000–30 000 megalitres) and the amount specified in the funding agreement (10 000 megalitres), for the same level of funding. In addition, the 10 000 megalitres has not yet been achieved and there is a disagreement between DEWHA, the proponent (a water authority) and the Victorian Department of Sustainability and the Environment, which oversees the project, as to when these benefits might be realised.

Figure 4.3

New remotely-operated Flume gates at the *Macalister Irrigation District Channel Automation*



Source: ANAO

4.31 In contrast to the *Wimmera Mallee* and *Macalister* projects, other projects are progressing well towards achieving their water savings objectives. This includes *Waterproofing Northern Adelaide*, as the following case study explains.

Case Study 3: *Waterproofing Northern Adelaide*



This project provides the infrastructure to integrate stormwater, groundwater, wastewater and drinking water systems in the Northern Adelaide Plains region. A combination of 20 aquifer storage and recovery wetlands (such as the Kaurna park wetlands, pictured) collect and treat stormwater, which is then injected into the groundwater through 27 community bores. The project is being delivered by an entity established to represent three councils—Playford, Tea Tree Gully and Salisbury. The project has total funding of around \$90 million, with \$38 million from the WSA program. Under the funding agreement with the Commonwealth, the proponent is required to collect and treat 16 gigalitres per annum of treated stormwater; which is to be used to replace at least 8 gigalitres of drinking water for industry, urban and residential uses.

In May 2009, the proponent had made substantial progress towards meeting their funded objectives, having captured and treated 18 gigalitres of stormwater. The reuse of stormwater also reduces pollutants entering the ocean. This project achieved the Water Industry Alliance 'Collaborative Teaming' award in September 2008, and is an example of the application of smart technologies to help address Adelaide's water shortages.

Delayed progress of projects

4.32 The achievement of project outcomes and ongoing water benefits also depends on projects making satisfactory progress in achieving their milestones. Of the 20 projects examined by the ANAO:

- two projects, which have total committed funding of \$120 million (*Wyong-Mardi Link*, *NQ Water*), have not yet started, even though for *Wyong-Mardi Link* the funding agreement was signed two years earlier;
- two projects (*Hawkesbury Nepean* and *Hydrometric Expansion Network*), which have total committed funding of \$83.4 million, only started in 2009—but both projects are now meeting their agreed milestones;
- one project (*Tasmanian Metering*) is well behind schedule and has been reduced in scope; and
- two projects (*Rainfall Enhancement Trials* and *Redevelopment of the Dalby Water Supply*) have been terminated and are providing no ongoing benefits.

4.33 The reduction of benefits, or delayed progress, on certain projects is an issue that DEWHA will need to consider when it formally evaluates the WSA program. The extent to which projects support the broader program objective of accelerating the development and uptake of smart technologies will also need to be considered. In this context, a number of the projects in the ANAO's audit sample might more appropriately be described as 'core infrastructure', such as pipelines, rather than smart technologies per se, such as innovative water recycling and treatment.

Program evaluation

NWC's evaluation strategy

4.34 In April 2007, the NWC produced a *Monitoring and Evaluation Plan* to cover the two programs it was responsible for administering under the \$2 billion Water Fund—WSA and Raising National Water Standards. The plan stated that an evaluation of WSA would cover:

- the performance of individual projects against their funded objectives;
- the performance of WSA against its stated program objective; and
- the contribution of the program to the NWI.

The evaluation was to take place in the context of the NWC's outcomes and outputs framework.

Performance assessment

4.35 Following the development of its monitoring and evaluation plan, the NWC conducted a performance assessment of 25 projects (with total funding commitments of \$402 million). Overall, the assessment concluded that the program had performed well, both in terms of accelerating the development and uptake of smart technologies, and in contributing to achieving NWI objectives. However, the assessment identified three main concerns—which have been confirmed by the ANAO's audit:

- the slow pace of implementation;
- the lengthy process to negotiate funding agreements; and
- the emergence of project-specific risks, such as cost 'blow-outs'—although it was considered that appropriate action was being taken to address these risks.

4.36 The NWC reported on the WSA program in its 2006–07 and 2007–08 Annual Reports. The information in the annual reports is comprehensive. It includes the results of the individual project evaluations and a summary of the NWC’s internal assessment of projects. Implementation issues faced by certain projects were also discussed.

DEWHA’s evaluation and reporting strategy

4.37 Since taking over administration of the program, DEWHA has continued to monitor the progress of projects against their objectives. It has also continued, and refined, the NWC’s practice of asking proponents to complete annual assessments on project benefits, which help to inform DEWHA’s assessment of project progress and outcomes. Key findings from the 2009 annual assessments are to be included in DEWHA’s 2009–10 Annual Report.

4.38 The annual reviews also provide the basis for a more formal program evaluation, which DEWHA advised is a major focus of the work plan for the last two years of the program. The planned evaluation is supported by DEWHA’s *Strategic Plan: Outcome 4: Adapting to a future with less water*, which has the objective of:

Timely implementation and effective administration of the government’s programs under water for the future and commencement of reviews of the more advanced water programs.⁶⁹

4.39 Progress reports are provided to the Executive on a monthly basis. These reports include the funds spent on the program, the current status of project milestones (via a traffic light report), and a list of projects that are falling behind schedule. DEWHA also provides regular briefs to the responsible Minister on different aspects of the WSA program. Summary information on the program was also provided in DEWHA’s 2008–09 annual report.

4.40 As noted previously, the full benefits of the program may not be known for several years after funding is scheduled to cease on 30 June 2011. Therefore, it will be important for DEWHA to have arrangements in place for monitoring proponents ongoing evaluation reports. Also, since WSA was the

⁶⁹ Excerpt from DEWHA’s *Strategic Plan-Directions to 2014*, accessed from <<http://www.environment.gov.au>>.

first major grants program aimed at improving the management and use of Australia's water resources, there are obvious benefits in disseminating the good practices and 'lessons learned' from the program, to inform the design and delivery of other departmental grant programs. This includes the water programs that DEWHA administers under the Government's \$12.9 billion *Water for the Future* plan.

Conclusion

4.41 Overall, the NWC/DEWHA have actively monitored the progress of projects, having regard to available resources. Both agencies have also appropriately balanced compliance matters and financial risks against the progress of projects, to enable water benefits to be achieved. However, a more defined framework to guide decisions on when to terminate agreements for under-performing projects could improve the overall use of program funds—although such decisions ultimately rest with the Minister. More generally, the delayed timing or reduction in water savings on certain projects is an issue that DEWHA will need to closely monitor, and take appropriate action on, to gain maximum benefits for the program.

4.42 The NWC established a sound evaluation plan for the WSA program, key elements of which have been adopted by DEWHA. The challenge for DEWHA is to ensure that the good practices and lessons from this program are used in a timely and effective way to inform the design and implementation of other water programs it administers.



Ian McPhee
Auditor-General

Canberra ACT
4 February 2010

Appendices

Appendix 1: Agency Responses to the Audit

National Water Commission

The Commission welcomes the ANAO's assessment that the Water Smart Australia program has been administered effectively by the Commission for the first four years of the program's operation.

The Water Smart Australia program is seen as successful in meeting some of the water reform objectives in the National Water Initiative and, when the program is taken as a whole, providing for the delivery of important water reform outcomes through the funding of significant infrastructure projects that might not otherwise have occurred. The role of the Commission and its Commissioners in providing independent advice to the Minister on projects has been acknowledged in the report as sound governance for the administration of a grant program of this type.

While the ANAO has made no specific recommendations in the report, the Commission acknowledges that the report provides some better practice guidance which the Commission intends to consider for adoption in the administration of its other programs.

Department of the Environment, Water, Heritage and the Arts

The Department welcomes the overall conclusions of the audit. The Department will work to ensure the good practices and lessons learned from the Water Smart Australia program are used to inform the design and implementation of other programs it administers, including *Water for the Future* programs.

Appendix 2: ANAO's Sample of 20 Funded Projects

No.	Project	State	Original funding	WSA pathway	Election commitment	Date approved by Minister	Total project cost
1	Western Corridor Recycled Water Scheme	QLD	\$408,000,000	National Icon	No	24/04/2007	\$2,393,000,000
2	Wimmera Mallee Pipeline	VIC	\$167,000,000	First Stage	Yes	14/04/2005	\$501,000,000
3	Ballarat Goldfields Superpipe	VIC	\$90,000,000	National Icon	Yes	5/04/2008	\$180,000,000
4	Lower Wyong River – Mardi Dam Link	NSW	\$80,300,000	Other	No	31/05/2007	\$80,300,000
5	Achieving Sustainable Groundwater	NSW	\$80,000,000	First Stage	Yes	31/05/2005	\$135,000,000
6	Hawkesbury Nepean River Recovery	NSW	\$77,400,000	National Icon	No	5/04/2008	\$77,400,000
7	Mackay Wastewater Recycling	QLD	\$28,800,000	First Stage	Yes	14/04/2005	\$130,020,000
8	NQ Water / Townsville - Water Supply Upgrade	QLD	\$40,000,000	WSA Round 1	Yes	28/10/2005	\$48,000,000
9	Waterproofing Northern Adelaide	SA	\$38,000,000	WSA Round 1	Yes	27/08/2006	\$90,200,000
10	Waterproofing the South	SA	\$34,500,000	WSA Round 2	Yes	26/06/2007	\$119,300,000
11	Statewide Wastewater Recycling	SA	\$20,000,000	WSA Round 2	Yes	26/06/2007	\$90,000,000
12	Macalister Irrigation District Channel Automation	VIC	\$20,000,000	First Stage	Yes	14/04/2005	\$41,000,000
13	Beenyup Groundwater Replenishment Trial	WA	\$15,750,000	WSA Round 2	No	24/01/2007	\$38,800,000
14	Capricorn Coast Water Supply	QLD	\$16,467,000	WSA Round 1	No	25/07/2006	\$49,400,000
15	Sustainable Management of water in the Mount Lofty	SA	\$13,900,000	First Stage	Yes	14/04/2005	\$51,300,000
16	Rainfall Enhancement Trials	QLD	\$2,000,000	Other	No	15/10/2007	\$10,000,000
17	Tasmanian Metering	TAS	\$7,864,850	WSA Round 2	No	24/01/2007	\$18,609,000
18	Hydrometric Network Expansion	NSW	\$6,000,000	WSA Round 2	No	24/01/2007	\$6,000,000
19	Redevelopment of the Dalby Water Supply	QLD	\$3,333,000	WSA Round 1	No	22/12/2005	\$10,000,000
20	Virginia Pipeline Extension Scheme	SA	\$2,035,000	First Stage	Yes	31/05/2005	\$4,070,000

File section methodology

The ANAO took the following factors into account in selecting the sample of 20 projects for detailed examination:

- size of the grant;
- funding pathway;
- location of the project (state/territory);
- type of project/NWI objective;
- project status;
- proponent type; and
- proportion of Commonwealth funding relative to total project cost.

The ANAO's sample represents 27 per cent of the total number of projects approved for funding (74), but accounts for 79 per cent of total program funding (\$1.5 billion) as of 15 January 2009.

ANAO site visits

The ANAO visited nine project sites, in three states:

- South Australia—*Virginia Pipeline Extension Scheme* (\$2.035 million); *Waterproofing Northern Adelaide* (\$38 million); *Waterproofing the South* (\$34.5 million); and *Mount Lofty* (\$13.9 million);
- Victoria—*Wimmera Mallee Pipeline* (\$266 million); *Ballarat Goldfields Superpipe* (\$90 million); and the *Macalister Irrigation Channels* (\$20 million); and
- Queensland—*Western Corridor Recycled Water Scheme* (\$408 million); and the *Mackay Wastewater Recycling* (\$45.5 million).

Appendix 3: Eligibility and Assessment Criteria for the Water Smart Australia Program

Table A 1

Eligibility criteria for the program

Pathway	Eligibility criteria
First Stage	<ol style="list-style-type: none"> 1. State and Territory governments must be signatories to the NWI.
Round 1	<ol style="list-style-type: none"> 1. The primary criterion for eligibility is that a project advances the objectives, outcomes and activities set out in the National Water Initiative. 2. Applications are open to State and Territory governments that are signatories to the NWI, local government, the private sector, industry or other organisations and community groups. 3. Projects must clearly produce significant national interest benefits. 4. Co-contributions are expected from applicants. The level of contribution an applicant is making is expected to reflect the extent of benefit that the applicant will receive from the completed project. 5. Applications are expected to be at an advanced stage of planning before they will be submitted to government for decision. All major preliminary studies (technical, financial and/or environmental) and any necessary consultations should be initiated or completed. 6. The project must: meet the requirements of the <i>Environment Protection and Biodiversity Conservation Act 1999</i>; comply with State or Territory and Australian Government native title, cultural heritage or related legislation; and all projects must comply with Commonwealth legislation.
Round 2	<ol style="list-style-type: none"> 1. The primary criterion for eligibility is that a proposal advances the objectives, outcomes and activities set out in the NWI. 2. Projects must clearly produce significant national interest benefits. 3. Applicants are expected to make a contribution to funding. The level of contribution an applicant is making is expected to reflect the extent of benefit that the applicant will receive from the completed project. 4. Proposals are expected to be at an advanced stage of planning before they will be submitted to government for decision 5. All proposals must comply with Commonwealth legislation, in particular with respect to native title and the <i>Environment Protection and Biodiversity Conservation Act 1999</i>. Proposals must also satisfy the requirements of state or territory legislation.
National Icon	<ol style="list-style-type: none"> 1. Project to be of state and national significance with clear public benefit. 2. Project must respond to a significant and evident urban or regional water management challenge or opportunity. 3. Project to be accompanied by a water management plan for the region(s)/state(s). 4. Project must include significant financial commitment by the state or territory governments(s). 5. Project must be consistent with the NWI.

Table A 2

Assessment criteria for the program

Pathway	Assessment Criteria
First Stage	<ol style="list-style-type: none"> 1. The degree to which the project is consistent with, and helps to achieve, the principles, outcomes and actions of the NWI. 2. The extent to which any project-specific conditions specified in the election announcement are satisfied. 3. The stage of project development (projects considered for the first stage would be expected to be able to be substantially commenced in 2004-05). 4. Value for money – cost-effectiveness. 5. The proportion of funding to be contributed by the State/Territory government or other parties. 6. The viability and sustainability of the project in technical, economic and environmental terms.
Round 1	<ol style="list-style-type: none"> 1. The extent to which the proposal advances the NWI. 2. The technical, economic and environmental viability of the proposal. 3. The extent of the environmental benefits of the proposal. 4. Value for money from the proposal. 5. The significance of the proposed project. 6. The degree of innovation in the proposal. 7. The extent of beneficiary contributions to the cost of the project. 8. Private equity contributions to commercial projects. 9. Social community impact.
Round 2	<ol style="list-style-type: none"> 1. The extent to which the proposed project advances the NWI. 2. The technical viability and economic, environmental and social benefits of the proposed project. 3. The significance of the proposed project. 4. The degree of innovation in the proposed project. 5. Value for money from the proposed project. 6. The extent of beneficiary contributions to the cost of the proposed project. 7. Private equity contributions to commercial proposals.
National Icon	<ol style="list-style-type: none"> 1. The extent to which the proposal advances the NWI. 2. The extent to which the project will deliver a lasting and genuinely transformative impact on water conservation and management in Australia. 3. The technical viability and the extent of economic, environmental and social benefits of the proposed project. 4. The extent of contributions to the cost of the proposed project from the parties other than the Commonwealth. 5. Overall value for money from the proposed project.

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