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Performance Audit

# **The Design and Administration of the Better Regions Program**

**The Department of Regional Australia, Regional  
Development and Local Government**

Australian National Audit Office

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of Australia 2011

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Canberra ACT  
27 January 2011

Dear Mr President  
Dear Mr Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Regional Australia, Regional Development and Local Government in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to *Senate Standing Order 166* relating to the presentation of documents when the Senate is not sitting, I present the report of this audit, and the accompanying brochure, to the Parliament. The report is titled *The Design and Administration of the Better Regions 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.

Ian McPhee  
Auditor-General

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

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## Abbreviations and Glossary

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Accountability	The CGGs define accountability as involving ‘agencies and decision-makers being able to demonstrate and justify the use of public resources to government, the Parliament and the community.’
ANAO	Australian National Audit Office
Approver (or decision-maker)	The Minister or Parliamentary Secretary, Ministers acting collectively (such as Cabinet) or, where relevant, an official with authority to determine whether an application or grant proposal will be funded under a grant program.
CGGs	<i>Commonwealth Grant Guidelines—Policies and Principles for Grants Administration</i> , Financial Management Guidance No. 23, issued by the Minister for Finance and Deregulation in July 2009 under FMA Regulation 7A. The purpose of the CGGs is to establish the policy framework and articulate the Government’s expectations for all agencies subject to the FMA Act and their officials when performing duties in relation to grants administration. The FMA Regulations require officials to act in accordance with the CGGs, with the CGGs setting out a number of mandatory requirements for both Ministers and officials.
DITRD LG	Department of Infrastructure, Transport, Regional Development and Local Government
ERC	Expenditure Review Committee of Cabinet
Finance	Department of Finance and Deregulation
FMA Act	<i>Financial Management and Accountability Act 1997</i>
FMA Regulations	<i>Financial Management and Accountability Regulations 1997</i>
Funding Agreement	A legally enforceable agreement setting out the funding terms and conditions under which a grant is provided.

Grant	<p>FMA Regulation 3A(1) defines a <i>grant</i> as an arrangement for the provision of financial assistance by the Commonwealth:</p> <ul style="list-style-type: none"> <li>(a) under which public money is to be paid to a recipient other than the Commonwealth; and</li> <li>(b) which is intended to assist the recipient achieve its goals; and</li> <li>(c) which is intended to promote one or more of the Australian Government's policy objectives; and</li> <li>(d) under which the recipient is required to act in accordance with any terms and conditions specified in the arrangement.</li> </ul> <p>FMA Regulation 3A(2) stipulates the financial arrangements that are taken not to be grants for the purposes of the FMA Regulations and the CCGs.</p>
Grants administration	<p>The CCGs stipulate that the <i>grants administration</i> function encompasses the whole process of granting activity and includes:</p> <ul style="list-style-type: none"> <li>• planning and design;</li> <li>• selection and decision-making;</li> <li>• the making of a grant;</li> <li>• the management of funding agreements;</li> <li>• reporting; and</li> <li>• review and evaluation.</li> </ul>
Key principles for grants administration	<p>The CCGs sets out the seven key principles of grants administration established by the Australian Government, as follows:</p> <ol style="list-style-type: none"> <li>1. Robust planning and design.</li> <li>2. An outcomes orientation.</li> <li>3. Proportionality.</li> <li>4. Collaboration and partnership.</li> <li>5. Governance and accountability.</li> <li>6. Probity and transparency.</li> <li>7. Achieving value with public money.</li> </ol>



Program outcomes	The results, impacts or consequences on the Australian community intended by government to arise through implementation of the program.
RA	Department of Regional Australia, Regional Development and Local Government
Selection criteria	<p>Selection criteria fall into two main groups, as follows:</p> <ul style="list-style-type: none"> <li>• threshold criteria are the criteria that an application must satisfy in order to be considered for funding. These are also variously expressed as 'eligibility criteria', 'mandatory criteria', 'compliance criteria' or 'gateway criteria'; and</li> <li>• assessment criteria are the criteria against which all eligible, compliant applications will be assessed in order to determine their merits against the program objectives and, for competitive programs, other competing applications.</li> </ul>
Strategic Review	<i>Strategic Review of the Administration of Australian Government Grant Programs</i> , 31 July 2008.
Transparency	The CGGs define transparency as referring to 'the preparedness of those involved in grants administration to open an activity and its processes to scrutiny. This involves providing reasons for all key decisions that are taken and the provision of information to government, the Parliament and the community. Transparency provides assurance that grants administration processes undertaken are appropriate and that policy and legislative obligations are being met.'



# **Summary and Recommendations**



# Summary

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## Introduction

1. During election campaigns political parties typically will release policy statements and the parties or their candidates may make announcements of their intention to provide certain benefits, services or facilities in the event the relevant party is elected or re-elected to government. The approach generally adopted at the Commonwealth level is that the incoming government confirms which announcements made during the campaign represent an election commitment, with relevant portfolio Ministers and departments being allocated responsibility for progressing the delivery of the confirmed announcements.
2. The allocation of election commitments from the November 2007 General election to portfolios was finalised by the Labor Government in the lead up to the May 2008 Budget. In respect to regional election commitments allocated to the Infrastructure, Transport, Regional Development and Local Government portfolio, the 2008–09 Budget included an expense measure of \$176.03 million to establish the Better Regions Program, with funding allocated over the period 2007–08 to 2010–11. This Program was to help local communities deliver local infrastructure and other regional community projects. The election commitments allocated to the Program related to projects such as the revitalisation of main streets in towns, construction of multi-purpose community and resource centres, major sport and recreational venues and community transport infrastructure.
3. The Better Regions Program was not open for applications as it was established solely to fund 105 commitments made by the Australian Labor Party (ALP) in the context of the 2007 election campaign. In June 2010, a further project announced as an election commitment in the 2007 election campaign (but previously allocated to a different portfolio) was included within the Better Regions Program, bringing the total number of projects allocated to the Program to 106.<sup>1</sup>

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<sup>1</sup> This project was able to be included because two of the projects originally allocated to the Better Regions Program within the funding of \$176.03 million had been approved and contracted under the Regional Partnerships Program such that the cost of these projects did not need to be met from the Better Regions Program appropriation.

4. Until September 2010, the Department of Infrastructure, Transport, Regional Development and Local Government (DITRDLG, now the Department of Infrastructure and Transport) was responsible for the design and administration of the Better Regions Program. The Administrative Arrangements Order of 14 September 2010 created the Department of Regional Australia, Regional Development and Local Government (RA). Amongst other things, RA is responsible for dealing with the delivery of regional and rural specific services, regional development and regional Australia policy and coordination. In this context, RA's responsibilities include the ongoing administration of the Better Regions Program, with staff of the former Local Government and Regional Development Division of DITRDLG having been transferred into the new department.<sup>2</sup>

5. As the projects were election commitments, neither department played a role in the selection of projects for consideration under the Better Regions Program. Rather, the role of the departments was to provide advice on the design of the Better Regions Program and to administer individual projects allocated to the Program, including obtaining information on each project from the proponent and assessing each project proposal so as to provide advice to the relevant Parliamentary Secretary<sup>3</sup> as to whether the project was eligible to be funded,<sup>4</sup> the provision of funding would represent an efficient, effective and ethical use of public money<sup>5</sup> and whether there were any risks to implementation of the project that required management. The departments

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<sup>2</sup> In this report, ANAO refers to DITRDLG in relation to administration of the Better Regions Program during the period that department was responsible for the Program and to RA in respect to administration of the Program from 14 September 2010 onwards.

<sup>3</sup> The Hon. Gary Gray MP, Member for Brand, was the Parliamentary Secretary for Regional Development and Northern Australia from 3 December 2007 to 9 June 2009. From 9 June 2009, the then Member for Bennelong, the Hon. Maxine McKew, was the Parliamentary Secretary for Infrastructure, Transport, Regional Development and Local Government. Since 14 September 2010, Better Regions Program funding decisions have been the responsibility of the Minister for Regional Australia, Regional Development and Local Government, the Hon. Simon Crean MP (the Minister).

<sup>4</sup> In the context of the Better Regions Program, the departmental assessment of project eligibility considered whether the project was included on the list of election commitments allocated to the Program. In advising as to whether funding should be approved for individual projects, the department also provided advice to the relevant Parliamentary Secretary as to whether the project submitted by the proponent was consistent with the intent of the announced election commitment.

<sup>5</sup> For grant programs, relevant policies of the Commonwealth include the Commonwealth Grant Guidelines (CGGs) and the published guidelines for the particular program. In providing advice to the relevant Parliamentary Secretary as to whether funding should be approved in relation to individual projects, the department provided a clear statement as to whether it considered the spending proposal represented efficient and effective use of public money.

were also responsible for developing, signing and administering Funding Agreements in respect of each approved project.

## Legislative framework

6. Commonwealth grant programs involve the expenditure of public money and thus are subject to applicable financial management legislation. Specifically, the *Financial Management and Accountability Act 1997* (FMA Act) provides a framework for the proper management of public money and public property. This framework includes requirements governing the process by which decisions are made about whether public money should be spent on individual grants, including those made under the Better Regions Program. In recognition of the importance of this framework, a key performance indicator adopted and reported on for the Program has been that it be designed and administered in a way that is consistent with the *Financial Management and Accountability Regulations 1997* (FMA Regulations), the ANAO Better Practice Guide on grants administration and the recommendations from the ANAO audit of the Regional Partnerships program.<sup>6</sup>

7. While not affecting a Minister's right to decide on the allocation of grants, since December 2007 the financial framework applying to grants decision-making has been progressively enhanced. In this context, in December 2008, the Government agreed to a range of measures to reform the administration of grants, including the development of an improved framework for grants administration. These decisions were made in response to the 31 July 2008 report of the Strategic Review of Grants<sup>7</sup>. The Government's December 2008 decisions have now been reflected in the new policy framework for the administration of grant programs by agencies subject to the FMA Act that took effect from 1 July 2009.

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<sup>6</sup> On 15 November 2007, the ANAO completed a performance audit of the Regional Partnerships Program. The audit made 19 recommendations to improve departmental procedures and practices, and to encourage further attention to aspects of the programs administration, in the interests of improving transparency and accountability. A further recommendation was directed at enhancing the existing framework governing the expenditure of public money, including through discretionary grant programs such as the Regional Partnerships Program. (ANAO Audit Report No. 14 2007–2008, *The Regional Partnerships Program*, Canberra, 15 November 2007, Volume 1—Summary and Recommendations, Canberra, 15 November 2007, p. 31.)

<sup>7</sup> Mr Peter Grant PSM, *Strategic Review of the Administration of Australian Government Grant Programs*, 31 July 2008.

8. Of particular relevance to the Better Regions Program, the Government accepted the Strategic Review's recommendation that the requirement on Ministers to receive and consider agency advice on the merits of proposed grants, as assessed against the relevant program guidelines, before taking any decisions on the award of individual grants<sup>8</sup> should apply to all grant spending proposals, including proposals designed to satisfy commitments made in the context of election campaigns. Similarly, agencies are required to develop and publish guidelines for all new grant programs, including in respect of programs established solely to fund election commitments. This policy requirement is now reflected in the Commonwealth Grant Guidelines (CGGs).<sup>9</sup>

9. Whilst the enhancements to the grants administration framework made since December 2007 applied to the design and implementation of the Better Regions Program, 86 Better Regions projects (81 per cent) had been approved for funding prior to the July 2009 changes to the FMA Regulations and introduction of the CGGs. Assessments of the remaining 20 projects were finalised after the changes were made to the FMA Regulations and after the introduction of the CGGs.

## **Audit objective and scope**

10. The objective of the audit was to assess whether the Better Regions Program has been effectively designed and administered. The audit scope included examination of all 106 Better Regions projects.

## **Overall conclusion**

11. The establishment of a specific election commitments program was a new approach aimed at promoting better practice in the consideration and implementation of regional election commitments. This approach assisted to balance the expectation of governments seeking to deliver upon their election commitments with the legislative obligations that:

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<sup>8</sup> This requirement was originally introduced through Finance Minister's Instructions issued in December 2007, which stipulated that Ministers should not make any decisions on discretionary grants without first receiving departmental advice on the merits of the grant application relative to the guidelines for that grants program.

<sup>9</sup> Department of Finance and Deregulation, *Commonwealth Grant Guidelines—Policies and Principles for Grants Administration*, Financial Management Guidance No. 23, July 2009, paragraph 3.19.



- the decision-maker has obtained and considered sufficient information to inform an assessment that it would be efficient, effective and ethical (and not inconsistent with relevant Government policies<sup>10</sup>) to approve the spending of public money; and
- the reasons for decisions to spend public money on a grant have been recorded.<sup>11</sup>

12. Implemented during a period of changing arrangements for grants administration, overall the Better Regions Program was effectively designed and has been well administered. In this context, considerable effort was invested to meet the Government's stated commitment that the Better Regions Program would be designed and administered in a way that was consistent with the FMA Regulations, the ANAO Better Practice Guide on grants administration and the recommendations from the ANAO audit of the Regional Partnerships program.

13. The July 2008 report of the Strategic Review of Grants emphasised the importance of sound planning and governance arrangements for all grant programs, including those used to fund election commitments. Consistent with the enhanced grants administration framework, Program Guidelines were developed and published. These Guidelines, and supporting internal procedures, provided a sound framework under which the department obtained relevant information from project proponents, assessed this information and provided advice to the relevant Parliamentary Secretary concerning the approval of funding for each project. However, whilst it was intended that the Guidelines would include program assessment criteria, they did not.

14. Since December 2007, the enhanced grants administration framework has required agencies to provide advice on the merits of each proposed grant, including a clear recommendation to the decision-maker concerning whether or not funding should be approved under the relevant program's guidelines. For applications-based grant programs meeting this obligation would require

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<sup>10</sup> As noted at footnote 5, for grant programs, relevant policies of the Commonwealth include the Commonwealth Grant Guidelines and the published guidelines for the particular program.

<sup>11</sup> Since 1 July 2009, the enhanced grants administration framework has required decision-makers to record the basis upon which they were satisfied that a proposed grant represents proper use of public money. Prior to that date, the recording of reasons for decisions was recognised as better practice but was not a statutory requirement.

the agency to assess eligible applications received by the closing date against selection criteria set down for the program and then to rank competing, eligible applications in terms of the available funding. As a program established solely to fund various regional election commitments, neither DITRDLG or RA had a role in the selection of projects. Nevertheless, the obligation to assess the efficient and effective use of public money for a proposed grant exists regardless of how a project proposal comes before an approver and regardless of whether project proposals are assessed and ranked in comparison to one another.

**15.** The published Program Guidelines and departmental administration of the Program recognised that there was a requirement for both an assessment of whether each project would make efficient and effective use of public money as well as an assessment as to whether any risk mitigation measures should be imposed. The department clearly and effectively communicated the results of its risk analysis and mitigation proposals to the relevant Parliamentary Secretary. However, the assessment briefings provided to the relevant Parliamentary Secretary did not similarly outline the basis upon which the department had assessed each project as representing an efficient and effective use of public money<sup>12</sup> (in support of its recommendation to the relevant Parliamentary Secretary that funding be approved).<sup>13</sup> ANAO has made one recommendation in this regard.

**16.** The effective management of risk was a feature of the Better Regions Program. To promote informed decision-making and guard against underdeveloped projects being submitted for possible funding approval, the department only provided its advice to the relevant Parliamentary Secretary

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<sup>12</sup> Identifying through the departmental briefing material the basis on which each proposed grant had been assessed by the department as representing an efficient and effective use of public money would have been aided had the published Guidelines outlined the criteria that would be applied to inform the department's assessment and had information been specifically sought from proponents on the expected benefits or outcomes of their project (so as to inform an assessment of whether the project represented value for money).

<sup>13</sup> Where Ministers or other decision-makers agree with the agency funding recommendation, they are able to point to the agency assessment and advice as representing the reasonable inquiries they have made as required by FMA Regulation 9, so long as:

- they are satisfied that the assessment was conducted with rigour and in accordance with the program guidelines; and
- the inquiries that were undertaken by the department, and the reasons why the department has concluded that the spending proposal represents a proper use of public money, are recorded in the advice.

once it was satisfied that it was sufficiently well informed about the project and any attendant risks. The department also took steps to manage identified risks as appropriate across the lifecycle of individual projects: in some instances the proponent was required to address one or more implementation risks prior to a Funding Agreement being signed whereas other risks were required to be addressed after the Funding Agreement was signed but prior to any payments being made, or through Funding Agreement milestones.

17. Most of the announced election commitments are proceeding in whole or part under a signed Funding Agreement and monitoring of project progress under the Funding Agreements has been effective. This has meant that RA has been aware of delays in the commencement and/or delivery of a significant number of projects. Consistent with better practice given the nature of the projects allocated to the Better Regions Program, project payments were structured to reflect actual progress rather than initial payments being made solely upon signing of a Funding Agreement. Additionally, progress payments have been withheld until such time as project milestones have been met. As a result, there have been rephasings of the budgeted expenditure for the Program, and the Program may need to be extended for an additional year to enable projects to be completed. As the Better Regions Program is not an economic stimulus program, and projects were not otherwise selected for funding on the basis of their ability to commence and be completed in a timely manner, this situation does not reflect poor assessment practices or program management. Rather, it reflects that some of the projects announced as an election commitment were at an early stage of planning and development when they were announced and/or there have been delays by the proponent in progressing the project.

## Key findings

### Program funding and distribution

18. Earlier ANAO performance audits, and the July 2008 report of the Strategic Review of Grants, have identified challenges in governments seeking to fund election commitments through existing grant programs. In particular, it has been noted that:

- the policy intent underpinning an election commitment may not be consistent with the eligibility or other criteria for the existing program. In particular, where the grant proposal is unlikely to satisfy those criteria, equity issues arise when applicants through a competitive

process are unable to secure funding because some of the available funding has been set aside to fund election commitments that otherwise may have ranked lower if assessed in terms of their comparative merit; and/or

- funding election commitments through an existing grant program, or reducing the funding available under an existing grant program in order to fund election commitments, can lead to calls for the size of the existing program to be increased or reinstated as well as adversely affecting the achievement of program outcomes.

19. In this context, as outlined in the recently released update of ANAO's Administration of Grants Better Practice Guide,<sup>14</sup> a more appropriate funding platform for the implementation of one or more election commitments relating to a particular portfolio of responsibility may be the establishment of a separate grant program to be used for the exclusive purpose of administering the election commitments. This is the approach that was taken in respect to the Better Regions Program. Specifically, once decisions were taken about which regional election commitments were to be allocated to DITRDLG for administration, \$176.03 million was provided for the Better Regions Program in the May 2008 Budget so as to provide sufficient funding to cover all commitments. Further in this respect, the amount allocated to other existing applications-based regional development programs was not reduced in order to fund the Better Regions Program.<sup>15</sup>

## Distribution of funding

20. As indicated at paragraph 5, the projects were election commitments that were later allocated to be considered for funding under the Better Regions Program. In this context, as outlined in ANAO's Better Practice Guide on the administration of grant programs, and acknowledged in the Commonwealth Grant Guidelines, a measure of grant program outcomes that is frequently the subject of public and parliamentary scrutiny is the distribution of funding awarded under the program. In particular, the geographic and political

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<sup>14</sup> ANAO Better Practice Guide, *Implementing Better Practice Grants Administration*, Canberra, June 2010, p. 56.

<sup>15</sup> The cost of funding projects allocated to the Better Regions Program was offset by the incoming Government not proceeding to establish the Growing Regions Program. The establishment of the Growing Regions Program had been announced prior to the 2007 General election but the Parliament had not appropriated any funds to this program prior to the change of government.

distribution of grants may be seen as indicators of the general equity of access to a program, as well as its effectiveness in targeting funding in accordance with the stated policy objectives of the program.<sup>16</sup>

21. As noted, the Better Regions Program was not open to applications but was established solely to fund various election commitments. In this context:

- the majority of Better Regions projects involving nearly 90 per cent of announced funding (87 projects or 82 per cent of the 106 projects in the Program) were located in electorates classified by the Australian Electoral Commission (AEC) as either Rural (54 per cent of projects and 56 per cent of announced funding) or Provincial (28 per cent of projects and 34 per cent of announced funding) electorates;
- the significant majority (73 per cent) of Rural and Provincial electorates were held by the Coalition at the time of the 2007 General election. Accordingly, given the concentration in those electorates of projects that were the subject of election commitments allocated to the Better Regions Program, 72 projects (69 per cent) and \$132.7 million of the announced funding (75 per cent of the total) related to seats which were Coalition-held prior to the 2007 election and that were classified as Rural or Provincial; and
- funding for projects allocated to the Program was largely focused on seats held by the Coalition at the time of 2007 election that were classified by the AEC as Marginal (that is, electorates in which the two-party preferred margin was less than six per cent) and, to a lesser extent, Fairly Safe (a two-party preferred margin of between six per cent and 10 per cent).

## Project assessments

22. Consistent with the enhanced grants administration framework, Better Regions Program Guidelines were developed by DITRD LG, approved by the Expenditure Review Committee of Cabinet and published. The importance of funding decisions being well-informed was reinforced in the published Guidelines which outlined that:

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<sup>16</sup> ANAO Better Practice Guide, *Implementing Better Practice Grants Administration*, op. cit., p. 100.

- in order for a Better Regions proposal to be approved for funding and a Funding Agreement developed, each proponent would need to provide information about their organisation and the project to the department;
- projects needed to be consistent with the details identified in the announcement of the election commitment; and
- the funding decisions would be taken by the relevant Parliamentary Secretary based on two considerations:
  - whether the project would make efficient and effective use of public money (as required by the FMA Regulations); and
  - whether any risk management strategies would need to be imposed as a condition of funding, based on risk assessments undertaken by the department.

23. This approach was supported by the department developing proformas to aid in consistently obtaining all relevant information from proponents (including from those proponent that had previously submitted an application for funding under the Regional Partnerships Program).<sup>17</sup> The extent and nature of the information sought through these proformas from project proponents was sufficient and appropriate to provide the basis for informed departmental assessments and advice to the then Parliamentary Secretary on the nature of the project and any attendant risks that might require management. However, information was not sought from project proponents on the intended benefits or outcomes from their respective projects.<sup>18</sup>

## **Departmental advice on the merits of individual projects**

24. Since December 2007, the enhanced grants administration framework has required departments to provide advice to Ministers on the merits of each grant application relative to the guidelines for the program. This approach does not affect a Minister's right to decide on the allocation of grants but is designed to ensure that where Ministers elect to assume a decision-making

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<sup>17</sup> The level of detail sought from proponents varied depending on the perceived potential risk of the project, with that risk evaluation being based on the level of Better Regions Program funding being sought: one proforma was developed for projects seeking up to \$50 000; another proforma was developed for those projects seeking between \$50 001 and \$250 000; and a third proforma was developed for those projects seeking more than \$250 000 in Better Regions funding.

<sup>18</sup> Obtaining information of that nature is important because, in assessing whether a proposed grant represents efficient and effective use of public money, it is necessary to examine the likely or intended outcomes of a project in light of the amount of funding being sought.

role in relation to the award of grants, they are well-informed of the departmental assessment of the merits of grant applications and suitably briefed on any other relevant considerations.<sup>19</sup> In this context, guidance to agencies from the Department of Finance and Deregulation<sup>20</sup> is that:

- an important consideration is whether the decision-maker has marshalled sufficient information to make a defensible decision. In this context, FMA Regulation 9 obligates a decision-maker to undertake reasonable inquiries so as to form a view about the merits of a spending proposal; and
- FMA Regulation 12 requires that a written record be made both of the terms of the grant and the basis for the approval.<sup>21</sup>

25. Individual project assessment briefings<sup>22</sup> were submitted to the Parliamentary Secretary for funding consideration once the department was satisfied it was sufficiently well informed about the project and any risks to project implementation. Briefings were finalised and provided over an extended period (between November 2008 and June 2010). The delays were the result of some project proponents being unable to readily provide the department with all necessary information for assessment, and/or because the project announced as an election commitment was not yet well developed. In each instance, the department recommended that funding be approved, although it was relatively common for this to be subject to certain conditions so as to address project implementation risks that had been identified by the departmental risk assessment.

26. In this context, there were three key elements to the department's advice to the relevant Parliamentary Secretary as to whether funding should be approved, as follows:

- consideration as to whether the project was eligible to be funded;

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<sup>19</sup> *Strategic Review of the Administration of Australian Government Grant Programs*, op. cit., p. 7.

<sup>20</sup> Department of Finance and Deregulation, Finance Circular 2009/05, *Commitments to spend public money (FMA Regulations 7 to 13)*, 29 June 2009, pp. 9–12.

<sup>21</sup> See footnote 13.

<sup>22</sup> Two projects that had been the subject of ALP election commitments during the 2007 election campaign which had been subsequently allocated to the Better Regions Program for administration were later found to have a Regional Partnerships Program Funding Agreement signed prior to the Better Regions Program being established. Accordingly, project assessments were only required in relation to 104 of the 106 projects allocated to the Better Regions Program.

- a risk analysis of each project; and
- a statement as to whether the department considered that, based on the information provided by the project proponent, the provision of funding for the project represented an efficient and effective use of public money.

27. The department's advice to the then Parliamentary Secretary on project risks was supported in each brief with an attached table summarising the identified risks and proposed risk management strategies. However, the departmental briefing material did not identify the basis on which the proposed grant had been assessed by the department as representing an efficient and effective use of public money. The department has advised ANAO that it accepts that refinements are required to its assessment approach so as to satisfy the enhanced grants administration framework.

28. Departments providing decision-makers with a documented assessment of each proposed grant in terms of the program selection criteria assists the decision-maker to meet their obligation to record the basis on which they were satisfied that a proposed grant should be approved. In this respect, the absence of any assessments to support the advice to the Parliamentary Secretary that projects represented efficient and effective use of public money was particularly apparent with respect to those projects allocated to the Better Regions Program that had previously been assessed under the Regional Partnerships Program. There was an important similarity in the project assessment arrangements for both the Regional Partnerships Program and the Better Regions Program in that under both programs projects were assessed in isolation to one another rather than eligible applications competing for a quantum of available funding. However, whereas the Better Regions Program Guidelines did not include any assessment criteria, the published Guidelines for the Regional Partnerships Program had identified assessment criteria which were sound and appropriate to a regional grant program.<sup>23</sup>

29. Further, in assessing project proposals under the Better Regions Program that related to earlier applications to the Regional Partnerships Program,<sup>24</sup> the department did not address how any concerns identified in

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<sup>23</sup> ANAO Audit Report No.14 2007–08, Volume 1—Summary and Recommendations, op. cit., p. 21.

<sup>24</sup> As noted at paragraph 6, it was intended that the Better Regions Program be designed and administered in a way that was consistent with (amongst other things) the recommendations from the ANAO audit of the Regional Partnerships program.



respect to value for money for previous unsuccessful applications to the former program had been addressed such that awarding a grant for the same project under the Better Regions Program represented an efficient and effective use of public money. The department has informed ANAO that, in retrospect, additional information could have been provided in individual project assessments and recommendations to inform the Minister and assist in recording the basis of approving a spending proposal. This is particularly important for projects which had previously been assessed as being not suitable for funding under other Commonwealth grants programs.

## Project and program delivery

30. The extent to which the commitments made in the context of an election campaign relate to well developed and substantiated project proposals can vary extensively. This has been reflected in the Better Regions Program such that, whilst most of the announced election commitments are proceeding in whole or part under a signed Funding Agreement:

- in four instances, a Funding Agreement has not been signed and consideration has or is being given to withdrawing the offer of funding;<sup>25</sup> and
- departmental tracking of project progress indicated that, as of September 2010, only 35 projects (33 per cent) had been completed.

31. In this context, most of the risks identified by the department during the assessment of project proposals had related to questions about whether the projects were sufficiently planned, designed (where relevant), costed and approved to proceed in a timely manner. As noted in ANAO Audit Report No. 3 2010–11,<sup>26</sup> it is not feasible for all project risks to be managed in a cost-effective manner through Funding Agreements, particularly in circumstances where significant amounts of the grant are paid upon signing of the Funding Agreement. In particular, some risks are more cost-effectively managed prior to a Funding Agreement being signed or prior to any payments being made to

<sup>25</sup> In one instance, one component of the project has been contracted but the more significant component has not yet been contracted.

<sup>26</sup> ANAO Audit Report No.3 2010–11, *The Establishment, Implementation and Administration of the Strategic Projects Component of the Regional and Local Community Infrastructure Program*, Canberra, 27 July 2010, pp. 41 and 140.

the project proponent. These principles were reflected in the department's administration of the Better Regions Program, as follows:

- for 26 of the 77 projects with one or more implementation risks identified, the department proposed, and the relevant Parliamentary Secretary agreed, that at least some of the risks needed to be managed during the Funding Agreement negotiations; and
- for 75 of the 77 projects with one or more implementation risks identified, the department proposed, and the relevant Parliamentary Secretary agreed, that one or more risks needed to be addressed through the Funding Agreement prior to any funding being paid.

32. In developing strategies for paying approved grants to funding recipients, care needs to be taken to ensure that the strategy adopted for the payment of approved funds appropriately safeguards the public money and promotes achievement of the agency's obligation to make proper use of Commonwealth resources. For the Better Regions Program, there were no instances where a payment was based on the signing of the Funding Agreement (as had been the case in previous ANAO audits of regional grant programs). Further, except in instances where the project had sufficiently progressed in line with contracted milestones, there were no Funding Agreements that involved a payment being made within the same month as signing of the Funding Agreement. Rather, the department endeavoured to structure milestone payments under each Funding Agreement to reflect actual project progress.

33. Effective procedures were developed for the department to monitor proponent progress with implementing contracted projects. Because of delays with various projects, the department's approach to managing risk by linking Program payments to project progress has meant that there have been delays in Program expenditure compared to the budget expenditure profile. As a result, as of November 2010, the department expected that potential delays in construction in relation to 32 projects may require a movement of funds of up to \$31.34 million to enable those projects to complete in 2011–12.

## Summary of agency response

34. A copy of the proposed report was provided to RA, the Department of Infrastructure and Transport, and relevant Ministerial decision-makers since the Program was introduced. Relevant extracts of the proposed report were also provided to various project proponents mentioned in the proposed report. Written comments were provided by some project proponents, and they have been incorporated as appropriate in the report.

35. Summary comments received by RA on the proposed report are reproduced below, with the full response included in Appendix 1:

The Department agrees with the ANAO's recommendation and other findings which will be taken into consideration in the development and implementation of guidelines and program management arrangements for future programs.

The Department notes the acknowledgement by the ANAO that overall the Better Regions program was effectively designed and has been well administered. The Department also acknowledges further refinements to the assessment process and subsequent advice to the Minister is required for future programs on the efficient and effective use of public money.

# Recommendations

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*Set out below is ANAO's recommendation and RA's abbreviated response. The more detailed response is shown in the body of the report immediately after the recommendation.*

## **Recommendation No. 1**

### **Paragraph 3.91**

Consistent with recent enhancements to the grants administration framework, ANAO recommends that the Department of Regional Australia, Regional Development and Local Government seek to better inform funding decisions by clearly identifying in its advice to Ministers the inquiries it had undertaken and the basis on which a proposed grant had, or had not, been assessed as representing an efficient and effective use of public money in the context of the published program guidelines.

**RA response:** Agreed.

## **Audit Findings**



# 1. Introduction

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*This chapter provides an introduction of the Better Regions Program and the background to the audit and its scope.*

## Background

**1.1** The Better Regions Program was announced by the then opposition during the 2007 Federal election campaign as a vehicle for funding various election commitments (see Figure 1.1). The commitments allocated to the Better Regions Program related to projects such as the revitalisation of main streets in towns, construction of multi-purpose community and resource centres, major sport and recreational venues and community transport infrastructure.

**Figure 1.1**

### Commitment to establish the Better Regions Program

#### Responding to the needs of growing regions

There are key infrastructure challenges that have the potential to put the brakes on regional development.

Rapid population growth produces pressure for community and economic infrastructure. Slower growing regions must also keep up, and a failure to maintain infrastructure will only hold them back.

In contrast to the Howard Government, Labor's approach to regional development is not to throw a 'fistful of dollars' at election time. Instead, Labor is committed to investments that are targeted at specific initiatives identified by the region, for the region to meet their development challenges.

The Better Regions Program has been developed by Labor to build on the strengths of the region, improve liveability, and create jobs. It will invest in locally driven projects which support:

- Economic sustainability.
- Clean, safe and attractive environments.
- Vibrant communities.
- Provision of economic and social services.
- Urban renewal.
- Community amenity.
- Community infrastructure.

Labor has announced a number of key packages through our Better Regions Program, for the corridors that are experiencing higher growth rates than the national average such as the Mandurah-Peel region in Western Australia, the Sunshine Coast in Queensland, Northern Adelaide in South Australia and the Northern Rivers region of New South Wales.

As well as dealing with the enormous growth pressures that have impacted on communities as a result of the resources boom, Labor's Better Regions Program will also respond to the growth pressures that are being experienced by communities on the urban fringes, regional centres and in 'tree change' and 'sea change' areas.

Not since a Federal Labor Government established the Better Cities Program has there been a strategic vision to inject funding into infrastructure to renew and sustain growth corridors.

Source: Australian Labor Party, Election 2007 Policy Document, *Regional Development for a Sustainable Future*, p. 5.

**1.2** In March 2008, the then Minister for Infrastructure, Transport, Regional Development and Local Government (now Minister for Infrastructure and Transport<sup>27</sup>) wrote to the then Prime Minister concerning future administrative arrangements for regional funding programs. In respect to the Better Regions Program, the Minister advised the then Prime Minister that:

The operation of the Regional Partnerships and Sustainable Regions programs in their current form has been made untenable by the adverse ANAO findings. In moving forward we must ensure that we introduce proper processes consistent with the probity, transparency and accountability recommendations in the ANAO report, while at the same time ensuring that regional Australia is supported by new programs.

We are committed to implementing our own Better Regions Program, the administration of which will reflect the probity, transparency and accountability recommendations and findings of the ANAO, and reflect the recommendations contained in the review of discretionary grants being undertaken by the Minister for Finance.

**1.3** Also in respect to the efficient and effective administration of the Better Regions Program, the website of the then Department of Infrastructure, Transport, Regional Development and Local Government (DITRD LG)<sup>28</sup> has stated<sup>29</sup> that the Better Regions Program has been developed to ensure that the implementation of the relevant election commitment projects is consistent with all relevant requirements of the *Financial Management and Accountability Regulations 1997* (FMA Regulations), the ANAO Better Practice guide (on grants administration) and the recommendations from the ANAO audit of the Regional Partnerships<sup>30</sup> program.

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<sup>27</sup> Under the revised Administrative Arrangements Order of 14 September 2010, administration of the regional funding programs formerly administered by the Minister for Infrastructure, Transport, Regional Development and Local Government (including the Better Regions Program) became the responsibility of the Minister for Regional Australia, Regional Development and Local Government.

<sup>28</sup> See paragraph 1.5 for further discussion of departmental responsibilities for administration of the Better Regions Program.

<sup>29</sup> <[http://www.infrastructure.gov.au/regional/better\\_regions.aspx](http://www.infrastructure.gov.au/regional/better_regions.aspx)> most recently accessed on 14 September 2010.

<sup>30</sup> On 15 November 2007, the ANAO completed a performance audit of the Regional Partnerships Program. The audit made 19 recommendations to improve departmental procedures and practices, and to encourage further attention to aspects of the programs administration, in the interests of improving transparency and accountability. A further recommendation was directed at enhancing the existing framework governing the expenditure of public money, including through discretionary grant programs such as the Regional Partnerships Program. (ANAO Audit Report No. 14 2007–2008, *The Regional Partnerships Program*, Canberra, 15 November 2007, Volume 1—Summary and Recommendations, Canberra, 15 November 2007, p. 31.)



**1.4** The Better Regions Program was formally established in the May 2008 Budget with \$176 million over four years to fund 105 of the incoming Government's regional election commitments made during the 2007 Federal election.<sup>31</sup> These commitments related to projects such as the revitalisation of main streets in towns, construction of multi-purpose community and resource centres, major sport and recreational venues and community transport infrastructure.<sup>32</sup> As a program focused solely on the funding of extant election commitments, the Better Regions Program was not open to applications for funding.

### **Reaffirmation of the Better Regions Program and creation of a dedicated department of regional Australia**

**1.5** As part of the negotiations to form government following the 2010 General election, on 7 September 2010 the Leader and Deputy Leader of the Australian Labor Party (ALP) signed an agreement with the Independent Members for New England and Lyne. In respect to regional Australia, this agreement included:

- a commitment to a new Cabinet-level Minister for Regional Australia and a new dedicated Department of Regional Australia;
- various new regional commitments in respect to the National Broadband Network, health, education, a new \$800 million Priority Regional Infrastructure Program and setting aside half (\$573 million) of the unallocated provisions in the Regional Infrastructure Fund to fund projects identified by Regional Development Australia committees in regional areas; and

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<sup>31</sup> In June 2010, a further project announced as a 2007 election commitment was included within the Better Regions Program. Specifically, during the 2007 election campaign, a sand enrichment study at The Entrance was announced as part of a suite of projects within the Tuggerah Lakes area. Following the 2007 election, \$20 million was allocated to clean up the Tuggerah Lakes from the Caring for the Country Program, administered by the then Department of the Environment, Water, Heritage and the Arts. This funding did not include the sand enrichment study that had been the subject of the 2007 election commitment as that project did not comply with the Caring for the Country Program guidelines. Accordingly, in June 2010 Ministers decided that the sand enrichment study could be considered for funding under the Better Regions Program.

<sup>32</sup> Department of Infrastructure, Transport, Regional Development and Local Government, *Submission to the House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government inquiry into the impact of the global financial crisis on regional Australia*, 25 May 2009, p. 5.

- the reaffirmation of existing ALP regional commitments, including the Better Regions Program.<sup>33</sup>

**1.6** Consistent with the agreement between the ALP and two Independent Members, the Administrative Arrangements Order of 14 September 2010 created the Department of Regional Australia, Regional Development and Local Government (RA). Amongst other things, RA is to deal with the delivery of regional and rural specific services, regional development and regional Australia policy and coordination. Immediately prior to the creation of RA, the delivery of regional funding programs had been the responsibility of the former DITRDLG (now the Department of Infrastructure and Transport).<sup>34</sup> In this context, RA's responsibilities including the ongoing administration of the Better Regions Program, with staff of the former Local Government and Regional Development Division of DITRDLG having been transferred into the new department.

## Audit objective and approach

**1.7** The objective of the audit was to assess whether the Better Regions Program has been effectively designed and administered. The audit scope included examination of all 106 Better Regions projects.

**1.8** Given the various agencies involved in the establishment of the program<sup>35</sup>, the audit was undertaken under section 18 of the *Auditor-General Act 1997*.

**1.9** The formal proposed report was issued in November 2010 to RA, the Department of Infrastructure and Transport, and relevant Ministerial decision-makers since the Program was introduced. Relevant extracts of the proposed report were also provided to various project proponents mentioned in the proposed report. Written comments were provided by some project proponents, and they have been incorporated as appropriate in the report. In

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<sup>33</sup> The agreement document noted that more than two-thirds of the projects to be funded under that program were in regional, rural and remote areas.

<sup>34</sup> In this report, ANAO refers to DITRDLG in relation to administration of the Better Regions Program during the period that department was responsible for the Program and to RA in respect to administration of the Program from 14 September 2010 onwards.

<sup>35</sup> In addition to DITRDLG, the Department of the Prime Minister and Cabinet was responsible for compiling a 'master list' of all 2007 election commitments and determining the portfolio responsible for the implementation of each commitment, and the Department of Finance and Deregulation (Finance) was responsible for administering the costing of election commitments under the *Charter of Budget Honesty Act 1998*.

addition, RA provided formal comments on the report, which have been reproduced in full in Appendix 1.

**1.10** The audit was conducted in accordance with ANAO auditing standards at a cost to the ANAO of \$415 000.

## 2. Program funding and distribution

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*This chapter examines the budget funding arrangements for the Better Regions Program, the allocation of election commitment projects that were eligible to be considered for funding under the Program and the associated distribution of funding.*

### Background

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

- competitive funding rounds which open and close to applications on nominated dates, with eligible applications received by the closing date being assessed against the selection criteria set down for the program and then prioritised against competing, eligible applications for the available funding;
- a demand-driven process under which all applications that satisfy stated eligibility criteria receive funding, up to the limit of available appropriations; or
- one-off grants to be determined on an ad-hoc basis (usually by Ministerial decision, including by Cabinet).<sup>36</sup>

**2.2** Under the enhanced grants administration framework introduced with effect from 1 July 2009, the Commonwealth Grant Guidelines (CGGs) require that, unless specifically agreed otherwise by the Government, competitive, merit-based selection processes are to be used, based upon clearly defined selection criteria.<sup>37</sup> The establishment of the Better Regions Program pre-dated the introduction of the CGGs.<sup>38</sup> In any event, as the Better Regions Program was established solely to fund various election commitments it was

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<sup>36</sup> ANAO Better Practice Guide, *Implementing Better Practice Grants Administration*, Canberra, June 2010, p. 44.

<sup>37</sup> Department of Finance and Deregulation *Commonwealth Grant Guidelines—Policies and Principles for Grants Administration*, Financial Management Guidance No. 23, July 2009, p. 29.

<sup>38</sup> See further in Chapter 3.

appropriate that it not be open to applications and it was not necessary for the Program to include a merit-based selection process. In November 2010, RA advised ANAO that the creation of the Better Regions Program as a stand-alone program to implement election commitments was done, in part, specifically to avoid the problems that can arise when election commitments are funded from within existing grant programs.

## Program funding arrangements

**2.3** As part of the process for allocating election commitments to Ministerial portfolios for administration following an election, agencies are responsible for assessing, and providing early advice to government on, options for seeking to fund the commitments. Where election commitments are intended to be implemented through grants, it will be necessary to consider the most appropriate administrative arrangements for considering those proposals, including the source of funding for commitments that may later be approved to receive payments of public money. In this context, all payments of public money must be pre-dated by an approval made under Regulation 9 of the FMA Regulations which requires that:

An approver must not approve a spending proposal unless the approver is satisfied, after making 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 Act).

*Note 1* When this note commenced, subsection 44(3) of the Act defined **proper use** to mean efficient, effective and ethical use that is not inconsistent with the policies of the Commonwealth.

**2.4** The Commonwealth policies with which a proposed grant must be not be inconsistent in order to be approved under FMA Regulation 9 include the guidelines applying to the program from which the expenditure is proposed to be made.<sup>39</sup> In that context, it may be problematic to seek to fund election commitments through an existing grant program. This is particularly the case under the enhanced grants administration framework given the preference that is to be given to competitive, merit-based selection processes being used, based upon clearly defined selection criteria. This is because the policy intent underpinning an election commitment may not be consistent with the

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<sup>39</sup> Commonwealth Grant Guidelines, op. cit., paragraphs 3.16–3.17.

eligibility or other criteria established for the existing program, such that the grant proposal is unlikely to satisfy those criteria.

**2.5** The report of the July 2008 *Strategic Review of the Administration of Australian Government Grant Programs* (Strategic Review of Grants)<sup>40</sup> drew attention to the challenges that may arise in situations where the assessment of an election commitment identifies shortcomings with the proposal in terms of the published eligibility or assessment criteria for an existing program, as follows:

The situation may arise that a spending proposal deriving from an election commitment satisfies the requirements of the FMA Regulations but fails to meet the eligibility or assessment criteria for the relevant funding program. For example, where a grant program is structured on a contestable basis, the proposal covered by the election commitment may fail to satisfy one or more of the eligibility criteria specified in the grant program guidelines, or alternatively may fail to make the selection cut when it is assessed on its merits against other competing applications. In such circumstances, should the Minister wish to proceed with the funding of the election commitment, a suitable funding platform for that purpose would need to be found.<sup>41</sup>

**2.6** The funding of election commitments through existing grant programs also needs to be carefully considered in terms of the potential for this approach to reduce funding that would be otherwise available under the program, thereby possibly leading to calls for the size of the program to be increased. For example, in the recent audit report on the management of the Strategic Regional Program/Off-Network Program, ANAO concluded that:<sup>42</sup>

The administration of the Program has been affected by decisions of both the former and current governments to use the available Program funding to meet the cost of election commitments. Whilst a relatively common approach, the experience with this Program highlights that delivering upon election

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<sup>40</sup> In February 2008, the Government announced that, in light of the results of significant Parliamentary and ANAO scrutiny of various grant programs, it would be undertaking a comprehensive review to examine the value of grants and the transparency and effectiveness of existing programs. The report of the Strategic Review of Grants of 31 July 2008 concluded that there were important gaps and weaknesses in respect to the administration of grants and made a number of recommendations to Government (see Mr Peter Grant PSM, *Strategic Review of the Administration of Australian Government Grant Programs*, 31 July 2008). In December 2008, the Government agreed to a range of measures to reform the administration of grants, including the development of an improved framework for grants administration.

<sup>41</sup> *Strategic Review of the Administration of Australian Government Grant Programs*, op. cit., pp. 63–64.

<sup>42</sup> ANAO Audit Report No. 30 2009–10, *Management of the Strategic Regional Program/Off-Network Program*, Canberra, 22 April 2010, pp. 21–22.

commitments through existing grant programs introduces a range of program management issues. In this case, adopting such an approach meant that stakeholder expectations were unlikely to be met given the formal policy document that led to the establishment of Part 6 of the land transport legislation had outlined that all funding would be competitively allocated based on applications received from [*Local Government Authorities*], with regional groupings of councils to perform a significant role in developing and contributing to project proposals. In addition:

- the use of the Program to fund commitments from the 2004 election delayed from 2004 to 2006 the calling of applications for Program funding, and required \$100 million in additional Program funding to be allocated in order that a sufficient pool of funds would be available to support a credible call for applications (in March 2006); and
- directing all of the available funding to commitments announced during the 2007 election resulted in the cancellation of further application rounds that were to have been held in 2009–10 and 2011–12. This has meant that, unless further funding is allocated to the Program, land transport projects of strategic regional significance will need to be considered for funding through other programs.<sup>43</sup>

**2.7** These risks will also exist in circumstances where the amount of funding for an existing program is reduced so as to either create a new program, or provide funding for ad hoc grants that would otherwise not be able to be funded within the original program.<sup>44</sup>

**2.8** As outlined in the recently released update of ANAO's Administration of Grants Better Practice Guide,<sup>45</sup> a more appropriate funding platform for the implementation of one or more election commitments relating to a particular portfolio of responsibility is likely to be the establishment of a separate grant

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<sup>43</sup> For example, the lack of any available funding under the Off-Network Program meant that the Government could not consider providing funding to Etheridge Shire Council for the replacement of the Einasleigh River Bridge on the Gulf Development Road project. An application for \$18 million in funding for this project had been submitted to the first round of the Strategic Projects component of the Regional and Local Community Infrastructure Program. The department's assessment was that this project was ineligible under that Program as funding would be used for transport infrastructure, a bridge and causeway, which the published Program Guidelines had identified as being ineligible for funding under the Strategic Projects component. As it eventuated, the project eligibility criteria were waived in respect to this project in order that the project could proceed so as to minimise the risk of the community being isolated by wet weather.

<sup>44</sup> While it is important to recognise, nevertheless, that governments may legitimately make such decisions, there is an important role for departments to draw attention to any attendant risks.

<sup>45</sup> ANAO Better Practice Guide, *Implementing Better Practice Grants Administration*, op. cit., p. 56.

program to be used for the exclusive purpose of administering the election commitments. In this respect, in December 2007 the then Minister for Infrastructure, Transport, Regional Development and Local Government had advised the then Prime Minister that:

I propose that the Government's regional election commitments be funded separately under a new appropriation and not from existing appropriations, with assessment of projects against published criteria. In its recent performance audit of the Regional Partnerships program, the ANAO was highly critical of the previous Government's action in funding nine projects (most of which were election commitments) through a program designed to operate on the basis of assessments against published criteria. The election commitments could be funded through a single Better Regions omnibus election commitment appropriation. Each commitment would have a separate grant agreement reflecting any conditions that I wish to place on the funding.

I propose that funding provided by the previous Government for the Growing Regions Program<sup>46</sup> but not committed prior to the election be applied to offset the cost of these commitments.<sup>47</sup>

**2.9** In respect to election commitments, the approach usually adopted is that the incoming government confirms which announcements made during the campaign represent an election commitment, with relevant portfolio Ministers and departments being allocated responsibility for progressing the delivery of those announcements that have been confirmed as an election commitment. In this respect, initially (in December 2007) 89 specific regional election commitments were identified, potentially involving up to \$158.9 million in Better Regions Program funding over four years. In March 2008, Cabinet agreed to funding for these projects being made available from the Better Regions Program, with further work to be undertaken on the allocation to portfolios of a further 144 regional election commitments to the

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<sup>46</sup> In respect to the then existing Regional Partnerships Program, on 12 September 2007, the then Minister for Transport and Regional Services announced that:

- a new Growing Regions Program would be established to invest in major projects, with \$200 million in funding over four years, with businesses, local governments, institutions and communities able to apply for funding of \$1 million to \$3 million per project; and
- the Regional Partnerships Program would be restricted to projects that needed funding of less than \$1 million, the lower threshold for an application under Growing Regions, with applications for Regional Partnerships funding to be considered in three streams.

<sup>47</sup> The establishment of the Growing Regions Program had been announced prior to the 2007 General election but the Parliament had not appropriated any funds to this program prior to the change of government.



value of \$93.96 million. The allocation of these commitments to portfolios was finalised on 7 May 2008, with a total of 105 projects being allocated to the Better Regions Program at a total potential cost to the Program of \$176.03 million.

**2.10** The 2008–09 Budget<sup>48</sup> included an expense measure of \$176.03 million between 2007–08 and 2010–11 for the Better Regions Program. The stated purpose of this funding was to help local communities deliver local infrastructure and other regional community projects. Also in May 2008, the then Parliamentary Secretary for Regional Development and Northern Australia wrote to proponents of the 105 projects allocated to the Better Regions Program informing them that the Government was taking steps to implement each of the election commitments.

**2.11** As noted in footnote 31, a further project announced as an election commitment in the 2007 election campaign was included within the Better Regions Program in June 2010, bringing the total number of projects allocated to the Program to 106. This project was able to be included because two of the projects originally allocated to the Better Regions Program within the funding of \$176.03 million had been approved and contracted under the Regional Partnerships Program such that the cost of these projects did not need to be met from the Better Regions Program appropriation.<sup>49</sup>

## Identifying the details of individual election commitments

**2.12** As was noted in ANAO Audit Report No. 14 2007–08, party election policies and other commitments announced during an election campaign represent undertakings to provide certain funding, services or facilities in the event the relevant party is elected or re-elected to government.<sup>50</sup> It was also noted in ANAO Audit Report No. 30 2009–10 that there are no documented criteria for distinguishing election commitments from other promises, notwithstanding that commitments may range from:

- announcements made by an individual candidate that are not included in his/her party's formal policy document in circumstances where the

<sup>48</sup> See Budget Measures 2008–09 (Budget Paper No. 2), p. 265.

<sup>49</sup> These two projects related to the \$4.0 million election commitment to the Mackay Aquatic Centre and Riverside Development and the \$275 000 election commitment to the Adelaide Hills Business Centre.

<sup>50</sup> ANAO Audit Report No. 14 2007–08, Volume 2—Main Report, op. cit., p. 139 and ANAO Audit Report No. 29 2008–09, *Delivery of Projects on the AusLink National Network*, Canberra, 23 April 2009, p. 158.

candidate is not currently in Parliament, his/her party is not currently in Government and the candidate is then not elected to the Parliament; through to

- announcements included in the incumbent party's formal policy document that is released by the relevant Minister(s) and is submitted for costing under the *Charter of Budget Honesty Act 1998*.<sup>51</sup>

**2.13** The ALP's regional policy document for the 2007 election, titled *Regional Development for a Sustainable Future*, was released on 20 November 2007 by the then Shadow Minister for Trade and Regional Development. The policy document included the commitment to establish the Better Regions Program<sup>52</sup> and noted that the ALP had already announced 'a number of key packages' in growth corridors that would be funded through the Better Regions Program. The policy document did not identify individual projects that would be funded under the Program and this policy document was not submitted for costing under the *Charter of Budget Honesty Act 1998*.

**2.14** The ALP's 2007 regional policy document stated that the Better Regions Program would 'invest in locally driven projects'. However, the Program was not open to applications. Rather, the quantum of Program funding and the projects to be funded was settled after the election, in the context of preparing the 2008-09 Budget and in light of various commitments made by the ALP during the 2007 election campaign. In this latter respect, according to departmental records, of the 105 commitments initially allocated to the Program, 56 had been announced by the then Shadow Minister for Trade and Regional Development either alone or in concert with other Shadow Ministers, sitting ALP members or ALP candidates in seats not held by the ALP at the time of the 2007 election. A further 16 commitments had been made in whole or part by one or more other Shadow Ministers, including the then Leader of the Opposition. The remaining 33 of the 105 commitments initially allocated to the Better Regions Program had not involved an announcement by a Shadow Minister, with the department's records indicating that:

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<sup>51</sup> ANAO Audit Report No. 30 2009–10, op. cit., p. 216.

<sup>52</sup> See paragraph 1.1 and Figure 1.1.

- five had been announced by one or more sitting Members of Parliament<sup>53</sup>;
- 14 had been announced by the 2007 ALP candidate for the relevant electorate, with each of those candidates ultimately being successful at the election;
- 10 had been made by the 2007 ALP candidate for the relevant electorate, with each of those candidates ultimately being unsuccessful at the election; and
- in four instances, the person or persons who made the commitment had not been identified in the department's documentation. Each of these projects had been the subject of an application to the former Regional Partnerships Program that had been approved for funding under that program by the Regional Partnerships Ministerial Committee, but in respect to which a Funding Agreement had not been entered into prior to the election.

**2.15** In addition to not being able to locate announcements for a small number of projects, for some projects there was a lack of clarity concerning the scope of the commitment and the actual location of the works. In this respect, the formal lists of projects prepared during the process of allocating election commitments to portfolios contained the name of the project and, often, the associated funding amount, but included no further detail. Various other departmental documents contained additional information such as the location of the project, the anticipated proponent, and/or the person/persons and/or policy document that had been the source of the commitment. However, these various documents were not always consistent with each other.

**2.16** For example, one Better Regions Program project was initially identified as 'EC07-209-Adelaide Hills Business Centre'. The proponent identified for the commitment was the Adelaide Hills Business and Tourism

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<sup>53</sup> In one instance, the \$200 000 commitment to construct and fit out a weight room/exercise facility at the Port Stephens Police Citizens Youth Club was jointly announced by the then sitting Members for Newcastle, Hunter and Shortland, together with the eventually successful 2007 ALP candidate for the electorate of Charlton and the eventually unsuccessful 2007 ALP candidate for the electorate of Paterson (in which electorate the project was located).

Centre Inc.<sup>54</sup> Subsequent departmental documentation dated 27 February 2008 identified the project as the Adelaide Hills Business Centre, located in Lobethal with an Australian Government commitment of \$275 000 to the project.

**2.17** The list of election commitment projects provided by the then Prime Minister to the then Minister for Finance and Deregulation on 28 April 2008, included the project twice. In one instance the commitment was identified as the 'Adelaide Hills Business Centre' but in the other instance as the 'Adelaide Hills, Stirling Business Centre & History Project'. The final list of projects, as confirmed by the then Minister for Finance and Deregulation to the then Prime Minister on 7 May 2008, identified the commitment as 'Adelaide Hills, Stirling Business Centre & History Project', in the electorate of Mayo, for \$275 000. However, the then Parliamentary Secretary for Regional Development and Northern Australia wrote to the Adelaide Hills Council (as proponent) on 13 May 2008 in relation to the election commitment to fund \$275 000 to the Adelaide Hills Business Centre and advised that the Government was now taking steps to implement this election commitment.

**2.18** Based on departmental records, it was not until September 2008 that the department identified that there were two Adelaide Hills Business Centre projects. One project related to an approved and contracted Regional Partnerships grant of \$275 000 located in Stirling, South Australia and the other project, thought to be the Better Regions project, was located at Lobethal, which is 20km north east of Stirling.

**2.19** In clarifying the actual Better Regions Program election commitment, DITRDLG referred to the list provided by the Department of Finance and Deregulation (Finance) based on the list confirmed to the then Prime Minister by its Minister (see paragraph 2.17) as the authoritative source. (No reference was made in the departmental records to the actual commitment as announced by the then Labor candidate for Mayo in order to clarify the project that had been the subject of the election commitment). As the description of the project in that list specifically identified the election commitment project as being the 'Adelaide Hills, Stirling Business Centre & History Project', DITRDLG

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<sup>54</sup> The Adelaide Hills Business and Tourism Centre Inc is a joint venture of the Adelaide Hills Council and Regional Development Australia to help to develop new and growing businesses and increase employment opportunities in the Adelaide Hills. The Centre occupies a 10 hectare complex of small to large manufacturing warehouses and offices at 1 Adelaide/Lobethal Road, Lobethal, South Australia.

concluded that the Regional Partnerships project and the Better Regions project were the same.

**2.20** Subsequently, on 29 October 2008, the then Parliamentary Secretary wrote again to the Adelaide Hills Council, confirming that the election commitment of \$275 000 relating to the Adelaide Hills Business Centre was approved and had been completed with the assistance of the Regional Partnerships Program and that, as a result, there was no requirement for further government funding through the Better Regions Program.<sup>55</sup>

**2.21** Another key issue that arose in DITRD LG's analysis of some projects allocated to the Better Regions Program was the extent to which the project details submitted by the proponent were consistent with the terms of the announced election commitment, where such details were available. In instances where the project details provided to the department by the proponent were considered to be inconsistent with the announced election commitment, options considered by the department were:

- recommending that funding not be approved for the project or that the offer of funding be withdrawn; or
- seeking advice from the then Parliamentary Secretary as to whether the project details provided by the proponent were consistent with the intent of the election commitment that had been announced.

**2.22** An example of the first approach was adopted in relation to the Riverina Highlands Rail Trail project.<sup>56</sup> However, it was more common for changes in a project from those set out in the election commitment announcement to be accepted in order to enable Better Regions Program funding to be approved for the project. For example, on 2 November 2007 the then Shadow Minister for Trade and Regional Development, the Member for Richmond and the ALP candidate for the seat of Page announced a package of initiatives for the Northern Rivers Growth Corridor, including a \$3 million commitment under the Better Regions Program to renovate and expand the existing Casino library for it to become the Casino Community and Cultural

<sup>55</sup> In this respect, in December 2010 Adelaide Hills Council advised ANAO that the Adelaide Business Centre project located in Stirling Library was the recipient of funding under the Regional Partnerships program, and that the funding agreement was signed on 22 November 2007.

<sup>56</sup> This project is discussed further at paragraph 3.19. In this instance, funding was originally approved but the department subsequently recommended the offer of funding be withdrawn when it became clear that the project could not be delivered.

Centre. In addition to housing a range of services, the announcement stated that:

The existing Library would be incorporated in the community centre complex, with increased library space to meet current and future needs. The co-location of facilities will improve cost efficiency in the delivery of these essential services and make them more accessible to the community.

**2.23** However, during the assessment of the project proposal submitted by the proponent following the election, in April 2009 DITRDLG advised the then Parliamentary Secretary that the project had been revised as a result of the Richmond Valley Council not securing the necessary additional funding (via rate increases) to meet its proposed contribution to the project cost and that it anticipated long delays in Council's negotiations with the State Government to obtain approval of the usage of the Crown land on which the existing library stood as a community centre. Accordingly, the then Parliamentary Secretary agreed to a departmental recommendation to a changed scope for the election commitment with a new building to be constructed on Council-owned land for the Casino Community and Cultural Centre (housing all services mentioned in the election commitment announcement, except the library) with the existing library to be maintained in its existing location. This meant that:

- the project was now being fully funded by the Better Regions Program grant of \$3 million, whereas Council had estimated in October 2007 that the original total project cost would have been in the order of \$5.6 million; and
- the envisaged benefits of co-locating all services would not be achieved.<sup>57</sup>

**2.24** In November 2010, RA advised ANAO that:

The department's approach was that projects were progressed on the basis that they were broadly consistent with the intent of the election commitment.

In the case of the Riverina Highlands Rail Trail project the department recommended the approval of the spending proposal (which was agreed by

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<sup>57</sup> As outlined at paragraph 3.61, for most Better Regions projects the department provided the then Parliamentary Secretary with clear advice as to whether it considered the provision of funding for the project represented efficient and effective use of public money but this view was not supported by any departmental analysis that outlined the basis on which the department had concluded that the spending of Program funds on the project represented efficient and effective use of public money.

then Parliamentary Secretary) but subsequently recommended its withdrawal when it became clear that it could not be delivered. The department did not recommend the alternative project proposed by the proponent as it was not consistent with the intent of the election commitment – that is, it wasn't a rail trail or similar recreational track – it was the use of funds for a different purpose. The department's advice noted that should the Rail Trail become feasible this could be reconsidered and the project implemented under the Better Regions Program.

The Casino Community and Cultural Centre was different in that the project was broadly consistent with the intent of the election commitment, albeit with a reduced scope as it was not feasible to progress the library component.

**2.25** In some instances, the need to agree to changes in the funded project from that announced in the election campaign had resulted from the election commitment announcement not being fully aligned with the project that the proponent was actually proposing to undertake. One such example related to Tumbarumba Shire Council which, prior to the 2007 election, had applied under the Regional Partnerships Program for a \$40 000 grant to create a display and preservation room for a collection of heritage quilts which are stored at the 'Pioneer Women's Hut' at the Glenroy Heritage Reserve. The department had assessed that application as meeting the assessment criteria set out in the Regional Partnerships Program guidelines, noting that the quilts were being stored inappropriately, resulting in damage each time they were displayed or used at workshops. A decision on the Regional Partnerships application had not been made prior to the 2007 General election.

**2.26** The then ALP candidate for the electorate of Eden-Monaro announced a funding commitment to this project on 16 November 2007, although the department could not locate any documentation concerning the terms of the announcement. This candidate was successful at the 2007 election and, following the May 2008 Budget, issued a media release announcing initial spending on a number of promises made during the election campaign, including \$40 000 'to preserve the Tumbarumba pioneer women's hut'. In its March 2009 advice to the then Parliamentary Secretary recommending that Better Regions Program funding for this project be approved, DITRDLG stated that the Member for Eden-Monaro's media release was:

...inconsistent with the original project plans submitted by the Council. Tumbarumba Shire Council has advised that the \$40 000 (GST exclusive) Better Regions funding will be used to erect a new building adjoining the Pioneer Women's Hut, consistent with a description of a project previously submitted under the Regional Partnerships Program. The building will display, store and

preserve a unique collection of heritage quilts and provide a viewing and training area for visiting quilting groups and students. The specially designed storage facilities will ensure quilts are stored and displayed with the least amount of damage.

The department considers that the inconsistency between the media statement of 14 May 2008 and the project proposal submitted by Council is minor and it is the intent of the election commitment to fund the project as submitted by Council.

**2.27** Another example of changes in the funded project from that announced in the election campaign being the result of some lack of clarity arising from the announcement of the election commitment was the Barcaldine Regional Council's Tree of Knowledge Project. The Commitment announced<sup>58</sup> on 15 November 2007 had stated that Commonwealth funding of \$2.6 million would enable a \$5 million project to proceed that comprised five elements:

- ongoing protection of the Tree of Knowledge and establishment of a Memorial at the site;
- interpretation of the Australia Tree of Knowledge story, within the Australian Workers Heritage Centre, through exhibitions dedicated to the Shearer's Strike and the imprisonment of striking shearers on St Helena Island;
- creation of a themed pathway to enable visitors to walk to the Memorial and facilitate access to the Museum and town;
- better car parking for visitors to the site, including coaches; and
- capacity to provide Visitor Information Centre, visitor facilities and a gift shop.

**2.28** After obtaining information on the proposed project from the proponent, in December 2008 DITRDLG advised the then Parliamentary Secretary that it was concerned that the project outlined to it by Barcaldine Regional Council was not consistent with the announced election commitment. In this respect, Council had (also in December 2008) informed the department that:

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<sup>58</sup> Through a joint Media Release issued by: the then Shadow Minister for Trade and Regional Development, The Hon Simon Crean MP; the then Shadow Minister for Transport, Roads and Tourism, The Hon Martin Ferguson MP; and the then Labor Candidate for the Electorate of Flynn, Mr Chris Trevor.



The original project plan was conceived in 2006 after the death of the Tree of Knowledge. This was very much a dream or vision of the completed project and included all the items described in the 2007 Australian Labor Party election campaign media release.

However once Council received the plans and costings from the architects and engineers it became very clear that the project had to be staged. There was insufficient funding to complete all of the project aims. The decision was made in June 2007 to divide the project into three stages. The first and most important stage was to construct a memorial to the Tree of Knowledge.<sup>59</sup>

The Queensland Government Q150 Legacy Infrastructure Program<sup>60</sup> project plan was lodged on 1<sup>st</sup> August 2007 and the Federal Government Regional Partnerships funding application was lodged on 8<sup>th</sup> August 2007. Both of these submissions clearly explained that this was a staged project and that the application for funding was for Stage One only. *[emphasis as per original]*

**2.29** Departmental records state that the then Parliamentary Secretary verbally advised the department during several discussions that the scope of the project that had been the subject of the announced election commitment was limited to Stage 1 of the overall project, being the preservation of the Tree of Knowledge and construction of the memorial.<sup>61</sup> The department sought, and the then Parliamentary Secretary provided (on 15 January 2009), written confirmation of this advice. Also on 15 January 2009, the then Parliamentary Secretary met with Council, approved Better Regions Program funding of \$2.6 million for the project and wrote to this effect to the Council. The Parliamentary Secretary's letter to Council also confirmed the scope of the project to be funded through the Better Regions Program, as follows:

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<sup>59</sup> In December 2010, the Australian Workers Heritage Centre advised ANAO that, 'by our judgement the proponent's exclusive stand alone, non revenue raising Tree of Knowledge Monument Project is not consistent with the announced election commitment of November 15th, 2007. We seriously question the legitimacy of the Council's decision in negating the integrity and intent of the election commitment thus substantially reducing outcomes merely on the basis of receiving plans and costings from architects and engineers.'

<sup>60</sup> Through that State Government program, Council obtained a grant of \$2.486 million towards the preservation of the Tree of Knowledge and construction of a memorial to the Tree of Knowledge.

<sup>61</sup> In December 2010, the Australian Workers Heritage Centre advised ANAO that, 'the proponent's exclusion of the Australian Workers Heritage Centre in regards to the final decision making process and its proposed involvement as a stated partner and stakeholder was not respected and further, the proponent's deletion of the interpretation of the Australian Tree of Knowledge story, within the Australian Workers Heritage Centre from within their funding submissions was obviously not considered relevant by the proponent to the integrity and intent of the election commitment.'

I appreciate that the election commitment media release created some confusion on the staged nature of the project. I wish to advise you that I agree that the scope of the Barcaldine Tree of Knowledge Memorial election commitment project relates to the protection of the Tree of Knowledge and the establishment of a Memorial at the site, and that this project, as you have advised the Australian Government, is the first but distinct stage in a multi-stage plan.

## Distribution of funding

**2.30** As outlined in ANAO's Better Practice Guide on the administration of grant programs:

A measure of achieved grant program outcomes that is frequently the subject of public and parliamentary scrutiny is the distribution of funding awarded under the program. In this respect, the geographic and political distribution of grants may be seen as indicators of the general equity of access to a program, as well as its effectiveness in targeting funding in accordance with the stated policy objectives of the program.<sup>62</sup>

**2.31** Against this background, Table 2.1 outlines the distribution in terms of electorate demographics of the funding announced in relation to the 2007 election commitments subsequently allocated to the Better Regions Program for administration. The majority of Better Regions projects involving nearly 90 per cent of announced funding (87 projects or 82 per cent of the 106 projects in the Program) were located in electorates classified by the Australian Electoral Commission (AEC) as either Rural (54 per cent of projects and 56 per cent of announced funding) or Provincial (28 per cent of projects and 34 per cent of announced funding) electorates.

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<sup>62</sup> ANAO Better Practice Guide, *Implementing Better Practice Grants Administration*, op. cit., p. 100.

**Table 2.1****Distribution of announced funding by electorate demographic**

Electorate demographic	Total electorates	Better Regions Program		
		Number of electorates	Number of commitments	Amount committed (\$m)
Rural	42	18 (42.9%)	57 (53.8%)	98.36 (55.8%)
Provincial	21	12 (57.1%)	30 (28.3%)	60.15 (34.1%)
Outer Metropolitan	45	11 (24.4%)	15 (14.2%)	15.90 (9.0%)
Inner Metropolitan	42	3 (7.1%)	4 (3.8%)	1.74 (1.0%)
<b>Total</b>	<b>150</b>	<b>44 (29.3%)</b>	<b>106 (100%)</b>	<b>176.15 (100%)</b>

Source: ANAO analysis of DITRDLG and AEC data.

**2.32** The significant majority (73 per cent) of Rural and Provincial electorates were held by the Coalition at the time of the 2007 General election. Accordingly, given the concentration in those electorates of projects that were the subject of election commitments allocated to the Better Regions Program the majority of Program projects and funding related to projects in electorates held by the Coalition.<sup>63</sup>

**2.33** Whilst the majority of announced funding was directed at projects located in electorates classified by the AEC as either Rural or Provincial, Table 2.1 outlines that a significant minority (19 projects—18 per cent of the total—involving 10 per cent of total Program funding) were located in electorates classified as Metropolitan. In this respect, the policy commitment to establish the Better Regions Program (see Figure 1.1) had outlined that, in addition to regional development projects, the Program would:

- fund projects in the corridors that are experiencing higher growth rates than the national average such as the Mandurah-Peel region in Western Australia, the Sunshine Coast in Queensland, Northern Adelaide in South Australia and the Northern Rivers region of New South Wales; and

<sup>63</sup> Specifically, 72 projects (69 per cent) and \$132.7 million of the announced funding (75 per cent of the total) related to Coalition-held seats prior to the 2007 election that were classified as Rural or Provincial. None of the Better Regions Program projects were located in any of the three Rural electorates held by Independent members at the time of the 2007 General election.

- respond to the growth pressures that are being experienced by communities on the urban fringes, regional centres and in 'tree change' and 'sea change' areas.

**2.34** The three Inner Metropolitan electorates<sup>64</sup> with commitments funded under the Better Regions Program were not located in either a high growth corridor or in communities located on the urban fringes or in 'tree change' or 'sea change' areas. Of the 11 Outer Metropolitan electorates with one or more Better Regions projects, four<sup>65</sup> are recognised as being part of growth corridors.

**2.35** The most significant feature of the distribution of election commitment funding subsequently allocated to the Better Regions Program related to a focus on electorates classified by the AEC as Marginal prior to the 2007 election (that is, electorates in which the two-party preferred margin was less than six per cent). In this context, whilst the overall distribution of announced funding was broadly consistent with the proportion of Rural and Provincial seats held by the ALP and the Coalition, the projects allocated for funding under the Program were largely focused on seats held by the Coalition that were classified by the AEC as Marginal and, to a lesser extent, Fairly Safe<sup>66</sup> (see Table 2.2).<sup>67</sup>

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<sup>64</sup> Being: the electorate of Batman, located in Melbourne's northern suburbs; the electorate of Gellibrand, located in Melbourne's western suburbs; and the electorate of Moreton, located in Brisbane's inner southern suburbs.

<sup>65</sup> Namely: Canning in Western Australia; Deakin and La Trobe in Victoria; and Makin in South Australia.

<sup>66</sup> A two-party preferred margin of between six per cent and 10 per cent.

<sup>67</sup> In this respect, 19 of the 31 seats with a Better Regions project that were held by the Coalition prior to the 2007 General election were won by the ALP. In total, 66 projects (62 per cent of all projects) with an aggregate commitment of \$96.5 million (55 per cent of the total Program value) were located in these 19 electorates.

**Table 2.2**

**Distribution of 2007 election commitments allocated to the Better Regions Program by political party and electorate status at the time of the 2007 General election**

	Safe seats	Fairly Safe seats	Marginal seats
<b>Commitments in electorates held by the ALP</b>			
Number of seats held (% of all seats)	19 (13%)	18 (12%)	23 (15%)
Number of seats with a Better Regions project (% of seats held)	2 (11%)	3 (17%)	8 (35%)
Number of Better Regions projects (% of total Better Regions projects)	2 (2%)	3 (3%)	14 (13%)
Total Better Regions funding announced (% of total Better Regions funding)	\$1.40m (1%)	\$4.89m (3%)	\$23.96m (14%)
<b>Commitments in electorates held by the Coalition</b>			
Number of seats held (% of all seats)	43 (29%)	21 (14%)	23 (15%)
Number of seats with a Better Regions project (% of seats held)	4 (9%)	9 (43%)	18 (78%)
Number of Better Regions projects (% of total Better Regions projects)	8 (8%)	21 (20%)	58 (55%)
Total Better Regions funding announced (% of total Better Regions funding)	\$13.73m (8%)	\$63.87m (36%)	\$68.30m (39%)

Source: ANAO analysis of DITRDLG and AEC data. [Percentages may not add due to rounding]

### 3. Project assessments and funding decisions

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*This chapter examines the approach adopted to assessing each project allocated to the Better Regions Program so as to inform Ministerial decisions about whether, and under what conditions (if any), funding should be approved.*

#### Introduction

**3.1** The Better Regions Program is a discretionary grant program.<sup>68</sup> Commonwealth grant programs involve the expenditure of public money and thus are subject to applicable financial management legislation. Specifically, the *Financial Management and Accountability Act 1997* (FMA Act) provides a framework for the proper management of public money and public property. This framework includes requirements governing the process by which decisions are made about whether public money should be spent on individual grants, including those made under the Better Regions Program.

**3.2** While not affecting a Minister's right to decide on the allocation of grants, since December 2007, the financial framework applying to grants decision-making has been progressively enhanced. Two of the significant changes first made on 14 December 2007 were to require that guidelines for any new grant programs be considered by the Expenditure Review Committee of Cabinet; and Ministers were not to make any decisions on grants without first receiving departmental advice on the merits of each grant application relative to the guidelines for the program. The latter requirement remains in place.<sup>69</sup>

**3.3** In December 2008, the Government agreed to a range of measures to reform the administration of grants, including the development of an improved framework for grants administration. These decisions were made in response to the 31 July 2008 report of the Strategic Review of Grants. The Government's December 2008 decisions have now been reflected in the new

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<sup>68</sup> In August 2008, DITRD LG advised the then Minister for Infrastructure, Transport, Regional Development and Local Government that it considered the Better Regions Program to be 'a discretionary program because the approver has to make a decision (ie has a discretion) in the case of each project and whether it is eligible to receive funding and under what conditions.'

<sup>69</sup> On 27 September 2010, the Government decided that guidelines for new grant programs were to be submitted to the Expenditure Review Committee on a case by case basis.

policy framework for the administration of grant programs by agencies subject to the FMA Act that took effect from 1 July 2009. The new framework involves:

- the continued application of the general requirements set out in the financial management framework regulating the expenditure of public money, which reflect sound principles that have evolved over time;
- new specific requirements under the financial management framework in relation to grants administration established through amendment of the FMA Regulations; and
- Commonwealth Grant Guidelines (CGGs) issued under the FMA Regulations. Officials performing duties in relation to the administration of grants must act in accordance with the CGGs.<sup>70</sup>

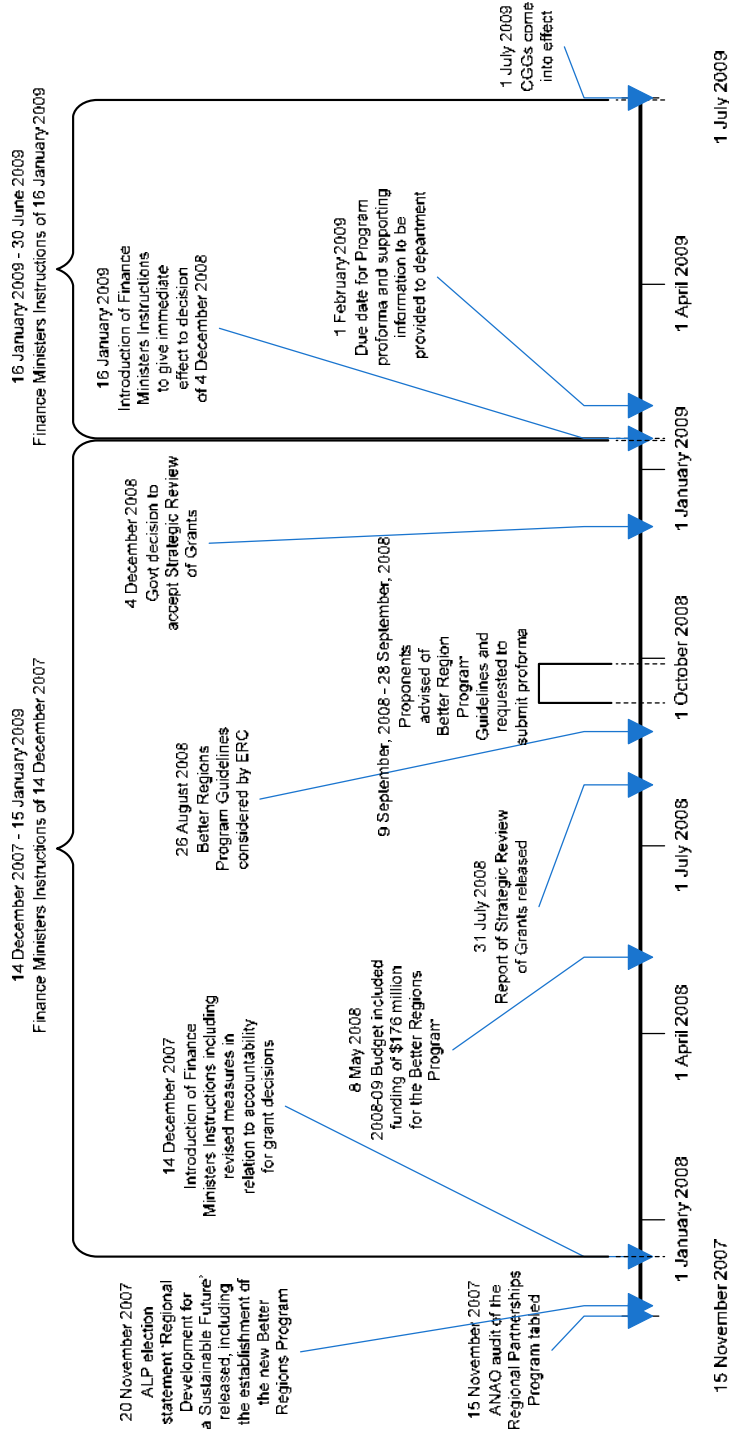
**3.4** Whilst the enhancements to the grants administration framework made in December 2007 applied to the design and implementation of the Better Regions Program, 86 Better Regions projects (81 per cent) had been approved for funding prior to the July 2009 changes to the FMA Regulations and introduction of the CGGs. In this respect, Figure 3.1 provides an overview of the enhancements to the financial framework applying to grants decision-making that have been progressively made since in December 2007 and how these related to the timeframe over which the Better Regions Program has been designed and implemented.

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<sup>70</sup> FMA Regulation 7A(2). The introduction of a statutory basis for the issuing of grant guidelines placed the administration of grant programs on the same footing as procurement activities, which are subject to the requirements of the Commonwealth Procurement Guidelines (CPGs). The CPGs are issued under FMA Regulation 7. Regulation 7(2) stipulates that officials performing duties in relation to the procurement of property or services must act in accordance with the CPGs.

**Figure 3.1**

## Applicability of progressive enhancements to the grants administration framework to the Better Regions Program



Source: ANAO analysis.



## Program Guidelines

**3.5** During election campaigns political parties typically will release policy statements and the parties or their candidates may make announcements of their intention to provide certain benefits, services or facilities in the event the relevant party is elected or re-elected to government. Constituents can reasonably expect their elected representative to pursue the delivery of these commitments when elected on such platforms. Nevertheless, it is important that governments pursue the delivery of their election commitments in a manner that is consistent with applicable legislative obligations as well as policies of the government. In this context ANAO's *Implementing Better Practice Grants Administration* Better Practice Guide observes that:

the effective implementation of commitments made in the context of an election campaign is reliant on both:

- the development of an administrative approach that ensures both decision-makers and potential funding recipients are made aware of the need for projects proposed for funding to satisfy minimum standards set out in relevant legislation, and for funding to be available from appropriations passed through the Parliament, before they can be considered for funding by the incoming or returned government; and
- the consistent and comprehensive implementation by the responsible agency of a program of inquiry and assessment in relation to each project being considered for funding, in order to appropriately inform the decision-maker.<sup>71</sup>

**3.6** In this context, clear, consistent and well-documented program guidelines are an important component of an effective grant program administration system. The importance of program guidelines has been reinforced under the enhanced grants administration, with the first reforms applicable from 14 December 2007 introducing a requirement for guidelines for any new grant programs to be considered by the Expenditure Review Committee of Cabinet. Similarly, the CGGs require that guidelines be developed (and considered by the Expenditure Review Committee) for new grant programs<sup>72</sup> so as to guide the consideration of the proposed grants

<sup>71</sup> ANAO Better Practice Guide, *Implementing Better Practice Grants Administration*, op. cit., p. 55.

<sup>72</sup> Commonwealth Grant Guidelines, op. cit., paragraphs 3.24 and 3.22.

within the context of the financial management and grants policy frameworks. In respect to the purpose of this requirement, the July 2008 report of the Strategic Review of Grants observed that

The ANAO's recent audit reports provide numerous examples of grant programs in which agencies' planning processes have been seriously flawed, often in multiple respects; specific examples are cited in Chapter 3 of the report. In many of these cases, the major problems encountered at a later stage in program administration could have been averted, or significantly ameliorated, had planning processes been more systematic and thorough at the outset. Much stronger assurance is needed that all key considerations relevant to the planning of an efficient and effective grant program have been fully and systematically addressed.<sup>73</sup>

**3.7** The enhanced grants administration framework requires that guidelines be developed for all new grant programs, including those pertaining to election commitments. Until September 2010, the enhanced grants framework required that the guidelines be approved by the Expenditure Review Committee of Cabinet.<sup>74</sup> Consistent with the enhanced grants administration framework, Better Regions Program Guidelines were developed by DITRD LG and considered by the Expenditure Review Committee. Draft Program Guidelines were provided by the department to the Minister for Infrastructure, Transport, Regional Development and Local Government on 23 June 2008, just over six weeks after the allocation of projects to the Program and the related amount of funding had been finalised by the Finance Minister in the context of May 2008 Budget (see paragraph 2.9). Following discussions with the Minister's Office and some amendments to the proposed guidelines, revised draft guidelines were submitted to the Minister on 3 July 2008. The following day, the Minister agreed to the department's recommendation that (consistent with the enhanced grants administration framework) the draft guidelines be submitted to the Expenditure Review Committee for its consideration.

**3.8** For the purpose of consideration by the Expenditure Review Committee, on 21 August 2008 the then Minister for Infrastructure, Transport,

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<sup>73</sup> *Strategic Review of the Administration of Australian Government Grant Programs*, op. cit., p. 6.

<sup>74</sup> On 27 September 2010, the Government decided that guidelines for new grant programs were to be submitted to the Expenditure Review Committee on a case by case basis.

Regional Development and Local Government wrote to the then Prime Minister enclosing a copy of the draft guidelines and advising that:

The Better Regions program comprises 105 election commitment projects<sup>75</sup> and was funded in the 2008-09 Budget at \$176 million over four years. I shall be able to begin implementation of the Better Regions Program when the Guidelines are agreed by the Expenditure Review Committee.

In designing the Guidelines for the Better Regions Program I have been conscious both of the recommendations of the Australian National Audit Office's (ANAO) *Performance Audit of the Regional Partnerships Program* and our Government's determination to administer our programs transparently and according to best practice.

The Better Regions guidelines and procedures have been developed to ensure that the implementation of our election commitment projects is consistent with all relevant requirements of the *Financial Management and Accountability (FMA) Regulations 1997*, the ANAO Better Practice Guide and the recommendations from the ANAO *Performance Audit of the Regional Partnerships Program*.

**3.9** The Better Regions Program Guidelines were approved by the Expenditure Review Committee at its 26 August 2008 meeting and were published on the department's website on 29 August 2008. In addition, in September 2008, copies of the Program Guidelines were sent to proponents in relation to the 105 projects identified to that point in time.

**3.10** The Program Guidelines were supported by an internal procedures manual. The purpose of the procedures manual was to provide a single point of information about administering and managing the program and ensure appropriate and consistent procedures and practices are applied. The stated intention was that:

The procedures are designed to ensure the Better Regions program:

- achieves the program objectives and policies set out in the Better Regions guidelines approved by the Minister for Infrastructure, Transport, Regional Development and Local Government;
- complies with the *Financial Management and Accountability Act 1997* and other relevant legislation, and

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<sup>75</sup> See footnote 31.

- adopts best practice as outlined in the Australian National Audit Office's Administration of Grants Better Practice Guide (May 2002)<sup>76</sup> and Implementation of Program and Policy Initiatives, Making Implementation Matter—Better Practice Guide (October 2006).

## Content of the guidelines

**3.11** The appropriate level of content of grant guidelines will vary depending upon the size, scope and nature of the program. In this respect, the CCGs outline that:

Grant program guidelines should be fit for purpose and should include information on the outcomes and objectives of the grant program, governance arrangements (including roles and responsibilities), funding and selection processes, performance monitoring and reporting, evaluation, operational issues and complaint handling mechanisms.<sup>77</sup>

**3.12** In providing the draft Better Regions Program Guidelines to the then Prime Minister for Expenditure Review Committee consideration, the then Minister for Infrastructure, Transport, Regional Development and Local Government noted that the Guidelines reflected that the projects to be considered had already been identified and that the Better Regions Program was comprised solely of election commitments. Accordingly, the Minister advised the then Prime Minister that he considered there was no requirement for new processes to establish program objectives and available funding as these issues had been addressed in the Budget context. In addition, the Minister noted that the guidelines addressed:

- program criteria, including assessment criteria;
- process issues, such as the application, assessment and decision-making processes, including the roles of Ministers and officials in decision-making; and
- administration issues, including payment and acquittals processes, timelines and milestones.

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<sup>76</sup> This was the extant version of the ANAO Better Practice Guide on grants administration until the revised version, titled *Implementing Better Practice Grants Administration*, was published in June 2010.

<sup>77</sup> Commonwealth Grant Guidelines, op. cit., p. 23.

**3.13** The Guidelines advised that proponents would need to provide information including details of:

- the proponent's organisation and any related entities in the corporate group;
- the project, including funding arrangements;
- financial information including quotations, cost estimates and budgets;
- project timeframes;
- project delivery information including project and business plans; and
- all statutory and other approvals required if relevant for the project.

**3.14** The Guidelines also outlined that, based on the information provided by proponents, the department would undertake a risk analysis that addressed: anticipated project results (which needed to be consistent with those identified in the election commitment); proponent viability; and project viability. The Guidelines further stated that:

- following an assessment by the department to ensure that the project was ready for funding, approval would be sought from the responsible Minister for the release of funds;
- the Minister would consider whether the project would make efficient and effective use of public money as required by Commonwealth legislation and whether any risk management strategies would need to be imposed as a condition of funding; and
- for approved projects, the proponent would need to enter into a Funding Agreement before any Better Regions funding could be paid.

**3.15** In recognition of the need for grant proposals in relation to election commitments to be considered in accordance with the financial framework, the Guidelines also advised that:

Proponents should not make financial commitments based on receiving funding from the Australian Government until the Funding Agreement (contract) has been executed.

***Program end date of 30 June 2011***

**3.16** The 2008–09 Budget had provided \$176.0 million over four years (ending in 2010–11) for the Program. The Commonwealth's budgetary and financial framework provides the capacity for government's to rephase administered expenses where there are delays in the delivery of funded

projects<sup>78</sup> and it is possible for program guidelines to be amended to extend program end dates and/or eligibility dates.<sup>79</sup> However, extending program end dates and significant and ongoing rephrasing of program funding can present budgeting and program management challenges.

**3.17** Where it is intended to adopt firm end dates for funding to be made available under a grant program so as to support effective management of a program within the timeframe for which the Parliament has appropriated funds, these dates should be clearly communicated in the program guidelines as being an important consideration. The published Guidelines stated that Program funding of \$176 million would be provided over four years from 2007–08 but neither the published Better Regions Program Guidelines nor the department’s internal procedures manual outlined that Better Regions projects, or at least those components being funded by the Better Regions Program, needed to be completed by 30 June 2011. In this respect, in November 2010 RA advised ANAO that:

We accept that the Guidelines could more clearly advise of the end dates of the Program and the department intends to clearly inform proponents of program timeframes in the guidelines for future programs.

**3.18** The importance of the Program end dates was evident in three instances where, subsequent to funding being approved, it became evident that the project would not be able to commence and be completed by 30 June 2011 leading the department to recommend to the then Parliamentary Secretary that the offer of funding be withdrawn. In two instances, a Ministerial decision on the department’s July 2010 recommendation to

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<sup>78</sup> For example, under the first round of the Strategic Projects component of the Regional and Local Community Infrastructure Program, each of the 137 Funding Agreements (as originally signed) required that projects would have proceeded sufficiently so as to allow all Commonwealth funding be paid on or before 30 June 2010 but it was ultimately necessary to rephase a significant proportion of program funds (\$112 million) from 2009–10 to 2010–11 due to project delays (see: ANAO Audit Report No.3 2010–11, op. cit., pp. 210–232).

<sup>79</sup> For example, with effect from 5 July 2010, the program end date and project eligibility dates for gateway criteria applicable to the Infrastructure Employment Projects stream of the Jobs Fund was changed from 30 June 2011 to 30 June 2012 with the following explanation being published on DITRDG’s website: ‘To date the IEP program has been used to fund Australian Government initiated projects which, while varying in size, have tended to be strategic projects which require detailed pre-construction development. These projects have the potential for long term economic and employment benefits but are more complex than was envisaged at the Program’s inception. The Jobs Fund—IEP Guidelines have been amended to reflect a revised end date from 30 June 2011 to 30 June 2012 to allow such projects to be considered for funding.’

withdraw the offer of funding had not been made prior to the caretaker period commencing for the 2010 General election.

**3.19** The third instance where the department recommended the withdrawal of funding due to project delays related to a \$200 000 commitment towards the establishment of a 'Rail Trail' using 20 kilometres of disused rail line between Tumbarumba and Rosewood which would form the initial section of the 'Riverina Highlands Rail Trail' project between Tumbarumba and Wagga Wagga in NSW, a distance of 130km. Consistent with the department's original recommendation, the then Parliamentary Secretary had approved funding for the project subject to two conditions, including that a lease agreement between the NSW State Government and Tumbarumba Shire Council be finalised prior to any Better Regions funding being paid. However, Council was unable to secure a lease on the land for the rail trail, as this required the passage of legislation in the NSW Parliament. On 16 July 2010, the then Parliamentary Secretary approved the withdrawal of the funding offer, on the basis of the department's advice that:

Taking into consideration the issues associated with the lease of the land for the project, it is unlikely that it will be able to complete within the Program's appropriation period (30 June 2011). On this basis, it is proposed that the offer of funding be withdrawn unless the Council is able to find a solution that fits within the election commitment and the appropriation timeframe.

**3.20** In each of these three instances, whilst funding had been approved and a letter sent to the proponent informing them of this, the approval was conditional on a Funding Agreement being signed. It was also conditional on a number of conditions being satisfied prior to any payment being made under the Funding Agreement. In each of the three instances, no Commonwealth funds had been paid in respect to the projects because the conditions could not be satisfied.<sup>80</sup> This approach represents a considerable improvement over that taken in other discretionary grant programs administered by DITRDLG that have been examined by ANAO in recent years where identified project risks have not been addressed prior to a Funding Agreement being signed and an (often large) initial payment being made upon signing of the Funding Agreement.

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<sup>80</sup> For two of the three projects, a Funding Agreement had not yet been entered into when the funding offer was proposed to be withdrawn. In the third instance, the Funding Agreement was executed but the first payment had been conditional on satisfying the approval conditions.

## Identifying decision-making roles and responsibilities

**3.21** An important element in designing a robust governance framework for a grant program is obtaining clarity as to who will be undertaking the role of decision-maker in relation to the awarding of grants.<sup>81</sup> In order to clearly define program roles and responsibilities, and avoid unnecessary processes, the question of who will be the decision-maker, and how compliance with the associated statutory and policy obligations will be achieved in a cost-effective manner, is best considered (and documented) prior to commencement of the program.<sup>82</sup>

**3.22** As early as 5 March 2008, DITRDLG was providing advice to Ministers on the decision-making processes for the Better Regions Program. On this date, advice was provided to the then Parliamentary Secretary for Regional Development and Northern Australia on options to implement the Government's regional election commitments. Among other things, the department proposed that the Parliamentary Secretary consult with the then Minister for Infrastructure, Transport, Regional Development and Local Government to confirm that the Parliamentary Secretary would be the decision-maker. The department further advised the Parliamentary Secretary on the proposed assessment and approval processes, including the obligations that the FMA Regulations would place on him should he exercise the role of decision-maker.

**3.23** Each draft of the Program Guidelines outlined that the Parliamentary Secretary would perform the decision-making role in respect to election commitment projects allocated for possible funding from the Better Regions Program.<sup>83</sup> The only exception was in respect to projects in the Parliamentary

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<sup>81</sup> ANAO Better Practice Guide, *Implementing Better Practice Grants Administration*, op. cit, p. 27.

<sup>82</sup> *ibid.*

<sup>83</sup> In this respect, during the House of Representative Standing Committee on Infrastructure, Transport, Regional Development and Local Government's inquiry regional funding programs, a DITRDLG official advised the Committee on 13 October 2008 that: 'A couple of points that are obvious in the guidelines that are published, which obviously the minister accepted, are that there is a nominated approver, which is the Parliamentary Secretary for Regional Development, and there is a consideration, quite explicit in those guidelines, of how Regulation 9 and Regulation 10 of the FMA Act are applied, putting it all in writing.' Source, *Hansard*, House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government, *New Regional Development Funding Program*, Monday 13 October 2008, Canberra, p. 32.



Secretary's own electorate, where the Minister would be the approver under FMA Regulation 9.<sup>84</sup>

**3.24** In addition, in March, June and July 2008, DITRD LG provided the then Minister for Infrastructure, Transport, Regional Development and Local Government and the then Parliamentary Secretary for Regional Development and Northern Australia with advice on proposed procedures for the funding approval processes for the Better Regions Program. This advice included an outline of the assessments the department proposed to undertake to inform consideration by the Parliamentary Secretary as to whether funding should be approved for individual projects, and any conditions that should be attached to such approvals. The department also advised on the requirements of the FMA Regulations and important terms and conditions that it proposed to include in Funding Agreements.

**3.25** In early July 2008, the Minister agreed to the proposed procedures. No project assessments were provided to the Parliamentary Secretary for funding consideration until November 2008, after the procedures were approved.

**3.26** By June 2010, the department had provided a project assessment briefing to the relevant Parliamentary Secretary in respect to each of the 104 projects allocated to the Better Regions Program.<sup>85</sup> In each instance, the department recommended that funding be approved; although it was relatively common for this to be subject to certain conditions as a management response to project implementation risks identified by the departmental risk assessment.

**3.27** ANAO's audit of the Regional Partnerships Program concluded that departures from the published guidance were a feature of the administration of that Program, including with respect to the truncation or 'fast tracking' of departmental assessment procedures as well as instances where funding was

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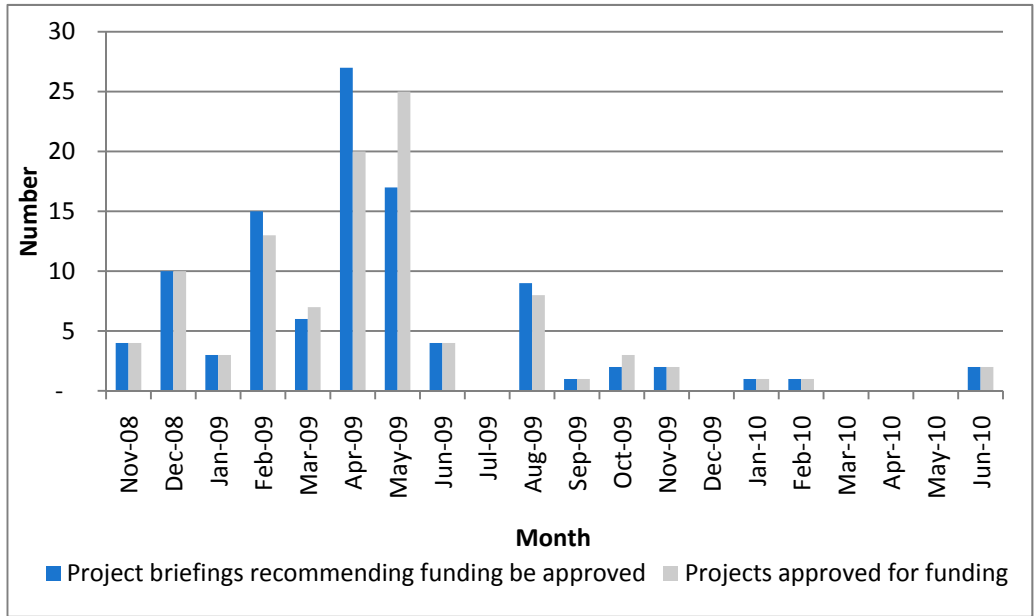
<sup>84</sup> Initially this applied to the electorate of Brand as the Hon. Gary Gray MP, Member for Brand was the Parliamentary Secretary for Regional Development and Northern Australia from 3 December 2007 to 9 June 2009. From 9 June 2009, the then Member for Bennelong, the Hon. Maxine McKew, was the Parliamentary Secretary for Infrastructure, Transport, Regional Development and Local Government. Since 14 September 2010, Better Regions Program funding decisions have been the responsibility of the Minister for Regional Australia, Regional Development and Local Government, the Hon. Simon Crean MP.

<sup>85</sup> This analysis does not include two projects that had been the subject of ALP election commitments during the 2007 election campaign which had been subsequently allocated to the Better Regions Program for administration notwithstanding that, in each case, a Regional Partnerships Program Funding Agreement had been signed in relation to the relevant project prior to the Better Regions Program being established in the context of the May 2008 Budget (see further at paragraph 3.67).

approved before any departmental assessment had been undertaken.<sup>86</sup> Such practices have not been a feature of the administration of the Better Regions Program. Each decision taken by a Parliamentary Secretary to approve funding in respect to a project has been informed by a departmental briefing and, as illustrated by Figure 3.2, departmental project assessments were not completed in a rush soon after the 2007 election. Instead, individual project assessments were not submitted to the Parliamentary Secretary for funding consideration until such time as the department was satisfied it was sufficiently well informed about the project and any risks to project implementation. There was also no evidence of approval processes, including the consideration of departmental assessments and funding recommendations, being rushed.<sup>87</sup>

**Figure 3.2**

**Timing of departmental project assessment briefings and funding decisions**



Source: ANAO analysis of DITRDLG records.

<sup>86</sup> ANAO Audit Report No.14 2007–08, Volume 1—Summary and Recommendations, op. cit., pp. 21–22.

<sup>87</sup> Of the 104 projects approved: five were approved on the same day as the departmental briefing; 12 were approved the following day; 31 were approved between two and five days after the departmental briefing was submitted; 49 were approved between six and 10 days after the departmental briefing was submitted; six were approved between 11 and 20 days after the departmental briefing was submitted; and one was approved 26 days after the departmental briefing was submitted.

### *Approved variation to procedures*

**3.28** In January 2010, the then Parliamentary Secretary agreed to a request from DITRDLG that she vary the administrative procedures associated with the Better Regions Program. Amongst other things, the department sought the ability to approve requests for minor variations to project scope and co-funding arrangements, rather than presenting all variation requests to the then Parliamentary Secretary for her consideration and approval. The department's request for authority for approval of minor variations explained that the then Parliamentary Secretary would remain the delegate for the approval of variations where there was a change to the intended purpose and outcomes of the election commitment project; where there was any change from the terms of the approved project announcement made by the then Parliamentary Secretary; or where the partner funding contribution to the cost of an approved project was to be significantly reduced.<sup>88</sup>

### **Obtaining information from proponents**

**3.29** As noted at paragraph 3.8, it was intended that the design of the Better Regions Program be consistent with all relevant requirements of the FMA Regulations, the ANAO Better Practice Guide on the Administration of Grants and the recommendations from the ANAO's performance audit of the Regional Partnerships Program.<sup>89</sup> In this latter respect, the Program Guidelines for the Regional Partnerships Program had stipulated that priority would be given to those projects that demonstrated value for money, which would be determined taking into account the total request for Regional Partnerships funding and the extent to which the project met assessment criteria relating to project outcomes, partnerships and support, applicant viability and project viability. However, ANAO's audit of the Regional Partnerships Program found that:

- the election commitment projects had not been required to satisfy the Program Guidelines, noting that in a number of instances where the

<sup>88</sup> In its advice to the then Parliamentary Secretary, DITRDLG advised that providing the department with the ability to approve minor project variations would not diminish the rigour with which requested variations were considered, rather that it would serve to rationalise an administrative function which was placing an unnecessary burden on the Parliamentary Secretary, and which had the potential to delay the roll-out of projects.

<sup>89</sup> As noted at paragraph 4.2, 36 Election Commitment projects from the 2004 General election had been allocated for funded through the former Government's Regional Partnerships Program.

project had been the subject of an earlier application to the Program, the departmental assessment had identified one or more shortcomings with the application;

- for some projects, the department did not seek or obtain documentation from the project proponent to substantiate key aspects of the project such as the proposed cost, scope and timeframe and/or the nature and sustainability of the outcomes expected to be achieved;
- relatively brief information was provided to the relevant Minister to inform decisions about whether the proposed expenditure on the election commitment represented efficient and effective use of public money; and
- for some projects, the department did not provide advice to its then Minister in relation to the value for money the project was likely to provide.<sup>90</sup>

**3.30** Against this background, ANAO Audit Report No.39 2006-07<sup>91</sup> outlined that an important procedural step in informing Ministerial consideration of whether to approve the spending of public money on projects that were the subject of an election commitment is for departments to ensure Ministers are provided with sufficient information about the purposes and details of these projects. Such information is necessary so as to ensure Ministers are provided with sufficient information to inform a decision about whether the proposed grant represents efficient and effective use of public money, as is required before a decision can be made under FMA Regulation 9 as to whether to approve the proposed spending.

**3.31** Further in this respect, one of the more significant changes that has been made to the financial framework for grants administration was the introduction of a requirement that Ministers not make any decisions on grants without first receiving departmental advice on the merits of each grant application relative to the guidelines for the program. Clearly, sound advice on the merits of a proposed grant requires the relevant department to be sufficiently well informed about the details of the project that is the subject of the proposed grant.

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<sup>90</sup> ANAO Audit Report No. 14 2007–08, Volume 2—Main Report, op. cit., p. 139.

<sup>91</sup> ANAO Audit Report No.39 2006–07, *Distribution of Funding for Community Grant Programmes*, Canberra, 24 May 2007, pp. 24, 26–37 and 125–127.

**3.32** For the Better Regions Program, in May 2008, the then Parliamentary Secretary for Regional Development and Northern Australia wrote to proponents of 105 projects informing them that the Government was taking steps to implement each of the related election commitments. In particular, proponents were advised that:

The Government is currently looking at the best way to implement its election commitment projects to ensure that these projects are funded to meet high levels of public accountability. Once the Government determines the administrative arrangements for election commitments, you will be contacted by the Australian Government Department of Infrastructure, Transport, Regional Development and Local Government to discuss the process required to progress your project.

**3.33** After the Better Regions Program Guidelines had been finalised and approved, in September 2008 the then Parliamentary Secretary again wrote to each of the project proponents:

- providing them with a copy of the Program Guidelines—proponents who had originally applied for funding for the relevant project under the Regional Partnerships Program were asked to note that the Better Regions Guidelines differed from those for the Regional Partnerships Program;
- informing them that DITRD LG would undertake a risk analysis of their project so as to ‘ensure that the risks associated with the viability of the proponent (you) and the project are appropriately managed and identify any potential risks to the Government in achieving value for money in meeting election commitments’;
- further informing them that ‘the Government will consider whether your project will make efficient and effective use of public money as required by Commonwealth legislation and whether any risk management strategies will need to be implemented as a condition of funding. Proponents (you) will be required to enter into a Funding Agreement (contract) with the Government (represented by the Department) once approval for the release of funds for the project has been granted by me’; and
- indicating that the department would shortly be in contact with each proponent to discuss the Guidelines and their particular project.

**3.34** The importance of funding decisions being well-informed was reinforced in the published Guidelines for the Better Regions Program. In particular, the Guidelines outlined that:

- in order for a Better Regions proposal to be approved for funding and a Funding Agreement developed, each proponent would need to provide information about their organisation and the project to the department;
- projects needed to be consistent with the details identified in the announcement of the election commitment; and
- the funding decisions would be taken by the Parliamentary Secretary based on two considerations:
  - whether the project would make efficient and effective use of public money (as required by the FMA Regulations); and
  - whether any risk management strategies will need to be imposed as a condition of funding, based on risk assessments undertaken by the department.

**3.35** This approach was supported by the department developing proformas to aid in consistently obtaining all relevant information from proponents (including from those proponent that had previously submitted an application for funding under the Regional Partnerships Program). The information sought through the proformas included:

- details of the proponent's organisation and any related entities in the corporate group;
- details of the project, including funding arrangements;
- financial information including quotations, cost estimates and budgets;
- project timeframes;
- project delivery information including project and business plans; and
- any statutory and other approvals required for the project.

**3.36** The level of detail sought from proponents varied depending on the perceived potential risk of the project, with that risk evaluation being based on the level of Better Regions Program funding being sought: one proforma was developed for projects seeking up to \$50 000; another proforma was developed for those projects seeking between \$50 001 and \$250 000; and a third proforma was developed for those projects seeing more than \$250 000 in Better Regions funding.

**3.37** The Guidelines and information request proforma were supported by a Documentation Compliance Checklist within the Internal Procedures Manual, with the associated procedures requiring that the department seek from each proponent any required information that was not provided in response to the initial information request. The Procedures Manual also incorporated guidance on when and how officials should seek additional information from proponents so as to inform the analysis of the project.

**3.38** The extent and nature of the information sought through these proformas from project proponents was sufficient and appropriate to provide the basis for informed departmental assessments and advice to the then Parliamentary Secretary on the nature of the project and any attendant risks that might require management. However, information was not sought from project proponents on the intended benefits/outcomes from their respective projects. Obtaining information of that nature is important because, in assessing whether a proposed grant represents efficient and effective use of public money (an issue addressed further later in this chapter), it is necessary to examine the likely or intended outcomes of a project in light of the amount of funding being sought. This has been recognised in the approach taken to assessing project proposals administered through other programs. For example:

- this was the approach outlined in the published Program Guidelines for the Jobs Fund;<sup>92</sup> and
- to assess election commitments announced during the 2007 election campaign that were allocated for funding through the AusLink Strategic Regional Program, DITRD LG requested that project proponents provide it with a description of the anticipated merits and benefits of the completed project, including those relating to operational efficiency, safety, community access and social significance.<sup>93</sup>

## Departmental advice on the merits of individual projects

**3.39** The Commonwealth's financial framework provides a sound framework to govern decision-making in respect to individual proposed

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<sup>92</sup> See section 6.5 of those Guidelines.

<sup>93</sup> ANAO Audit Report No. 30 2009–10, op. cit., p. 240.

grants. A key aspect of the financial framework is the obligation placed on approvers by FMA Regulation 9 to, prior to taking a decision as to whether approve a proposed grant, undertake reasonable inquiries in order to satisfy themselves as to whether the proposed grant:

- will make efficient, effective and ethical use of the public money; and
- would not be inconsistent with the policies of the Commonwealth, which include the CGGs and the specific guidelines established for the relevant program.

**3.40** As mentioned at paragraph 3.31, reinforcing the FMA Regulation 9 obligation as it applies to grants, since December 2007 there has been a requirement that Ministers not to make any decisions on a proposed grant without first receiving departmental advice on the merits of the grant relative to the guidelines for the program. This obligation does not affect a Minister's right to decide on the allocation of grants. Rather, as noted in the Strategic Review, this control is:

designed to ensure that where Ministers elect to assume a decision-making role in relation to the award of grants, they are well-informed of the department's assessment of the merits of grant applications and suitably briefed on any other relevant considerations.<sup>94</sup>

**3.41** For the Better Regions Program, there were three key elements to the department's advice to the relevant Parliamentary Secretary as to whether funding should be approved, as follows:

- consideration as to whether the project was eligible to be funded having regard to whether:
  - the proponent was a legal entity (such that it could sign a legally binding Funding Agreement);
  - the project was consistent with the election commitment that had been made; and
  - the project was included on the list of election commitments allocated to the Program;
- a risk analysis of each project. Risk analyses was undertaken to determine the legal status of the proponent organisation (which, as

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<sup>94</sup> *Strategic Review of the Administration of Australian Government Grant Programs*, op. cit., p. 7.



noted, was an issue in respect to whether the project was eligible for funding), as well as to identify and rate risks, propose risk treatments and advise the decision-maker whether these risks were acceptable having regard to any proposed risk mitigation strategies; and

- for 86 of the 104 projects<sup>95</sup> approved for funding under the Better Regions Program (83 per cent), a statement as to whether the department considered that, based on the information provided by the project proponent, the provision of funding for the project represented an efficient and effective use of public money was included in the briefing provided to the then Parliamentary Secretary. The 18 projects where such a statement was not included in the briefing material were approved between January 2009 and March 2009 (notwithstanding that five other projects approved for funding in that period did include a statement that the department considered the project to represent efficient and effective use of public money). In November 2010, RA advised ANAO that:

The department considered that the projects did make an efficient and effective use of public money. The department has at various times in the life of the program streamlined the package of briefing material provided to the Parliamentary Secretary for his consideration on projects. In developing the packages, the briefs identified inadvertently did not contain a statement about the effective and efficient use of public money.

**3.42** For each of the 104 projects approved under the Better Regions Program, the departmental briefing included, in the body of the briefing or as an attachment to that briefing or through a cross-reference to earlier briefing material, advice from the department to the then Parliamentary Secretary on the requirements of the FMA Regulations. This was in addition to the March, June and July 2008 briefings (see paragraph 3.24) on proposed procedures for the funding approval processes which had, amongst other things, outlined the requirements of the FMA Regulations.

<sup>95</sup> As noted at footnote 85 and discussed further at paragraph 3.67, there were two projects that had been the subject of an ALP election commitment during the 2007 election campaign that were subsequently allocated to the Better Regions Program for administration, but in respect to which Regional Partnerships Program Funding Agreements had been signed prior to the Better Regions Program being established in the context of the May 2008 Budget.

**3.43** These steps were consistent with Recommendation No.1 in ANAO's audit of the Regional Partnerships Program.<sup>96</sup> However:

- as outlined at paragraphs 3.61 and 3.62, there was no explicit advice from the department to the relevant Parliamentary Secretary which outlined the basis on which the department had concluded that the spending of public money on each project represented efficient and effective use of public money; and
- while the department amended its proforma project briefing material with the intention of reflecting the amendments to the FMA Regulations that came into effect on 1 July 2009, the amended briefing material did not effectively address the change made to the financial framework with respect to the recording of reasons for grant funding decisions (see further at paragraphs 3.85 and 3.87).

## **Eligibility criteria**

**3.44** The importance of grant program guidelines clearly identifying any threshold requirements that must be satisfied in order for candidate projects to be considered for funding is well recognised. Well-constructed eligibility criteria are straightforward, easily understood and effectively communicated via published program guidelines.

**3.45** The Better Regions Program Guidelines did not include a section identifying any eligibility criteria. One key eligibility criterion for funding under the Program was that the project relate to one of the election commitments that had been allocated to the Program for administration. This requirement was not stated in the Program Guidelines, but the department's website included the following clear advice:

The Better Regions Program is not open for new applications.<sup>97</sup>

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<sup>96</sup> That recommendation, agreed to by the department was that the department, in the design and implementation of discretionary grant programs, strengthen its administrative processes and provide relevant advice to responsible Ministers in relation to:

- the statutory obligations relating to the approval and payment of grants arising under the applicable financial management legislation; and
- options for implementing administrative arrangements that satisfy program policy objectives while ensuring the efficient and effective compliance with all applicable statutory obligations.

<sup>97</sup> <[http://www.infrastructure.gov.au/regional/better\\_regions.aspx](http://www.infrastructure.gov.au/regional/better_regions.aspx)> most recently accessed on 15 September 2010.

**3.46** Similarly, the department's Internal Procedures Manual (section 4.1.5) stated that two key issues were to be considered before a risk analysis was undertaken of each project allocated to the Better Regions Program. The first was whether the proponent organisation was a legal entity in order that a Funding Agreement could be entered into. The second was that:

Each Better Regions project must be consistent with the election commitment made by the Government. Where the project differs in scope from that which was originally announced by the Government as an election commitment, the Parliamentary Secretary for Regional Development and Northern Australia must consider whether the project in its revised form is consistent with the intent of the election commitment<sup>98</sup> and whether it complies with Regulation 9 of the *Financial Management and Accountability Act 1997 (FMA Act)*, which requires that it is in accordance with Commonwealth policies and will make an efficient and effective use of public money. Depending on the nature of the scope change, approval may be required from the Prime Minister.

**3.47** Under this approach, consistency of the project details provided by the proponent with the commitment that had been announced was an eligibility criterion for Program funding. However, the published Program Guidelines did not clearly identify consistency with the announced election commitment as being an eligibility criterion. Rather, the published Program Guidelines identified that consistency with the announcement was a factor to be considered as part of the departmental risk assessment.

**3.48** Considerable flexibility was adopted in assessing whether the project details submitted by the project proponent were consistent with the announced election commitment. One example where this issue became significant was in relation to the aforementioned Tree of Knowledge project (see paragraphs 2.27 to 2.29) ultimately resulting in the project scope being confirmed as less than that indicated by key aspects of the election commitment announcement.

**3.49** Another example involved the commitment made to the Gosford Railway Station Parking project. On 22 November 2007, the Central Coast Express Advocate reported a \$7 million election commitment from the then ALP candidate for Robertson to the Gosford City Council for the Gosford Railway Station parking project. Specifically, the article reported that Federal

<sup>98</sup> Similarly, in respect to considering project results in the context of the departmental risk assessments, the Guidelines stated that: 'The material results of the project might include the construction of a community centre, renovation of a community hall or construction of new sporting facilities. The results of the project need to be consistent with those identified in the announcement of the election commitment.'

Labor would contribute \$7 million to build an extra 400 parking spaces for Gosford commuters at the Gosford Railway Station, and included a photograph of the ALP candidate, the then Shadow Minister for Human Services, Housing, Youth and Women and the chairman of the Central Coast Commuters Association atop the existing carpark.

**3.50** In June 2010, DITRDLG advised the then Parliamentary Secretary that a feasibility study in December 2008, and updated in October 2009, had established that it was not physically possible to build 400 new parking spaces at Gosford Railway Station or to extend its commuter parking by 400 spaces for \$7 million in funding. On that basis, Gosford City Council had been allowed the time to pursue a range of other options to make additional parking available to commuters. As a result, in June 2010, the then Parliamentary Secretary approved \$7 million in Better Regions Program towards a \$11.6 million project to acquire the existing Gosford Town Centre (a shopping centre operating under receivership) so as to make 400 spaces in the existing carpark, located in the vicinity of the Gosford Railway Station, available to commuters free of charge for five years.<sup>99</sup> The Parliamentary Secretary further approved the project being retitled as the Gosford Commuter Parking Project.<sup>100</sup>

## **Risk assessments**

**3.51** The published Program Guidelines stated that:

Based on the information provided, the Department will undertake a risk analysis of the proposal which may include an assessment of the financial viability (Financial Viability Assessment) by an appropriately qualified external consultant engaged by the Department. This will ensure that the risks associated with the viability of the proponent and the project are managed.

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<sup>99</sup> In November 2010, RA advised ANAO that the advice agreed by the then Parliamentary Secretary considered that the revised project met the intent of the election commitment to provide car parking for Gosford Railway Station. The announcement by the candidate had been that the existing carpark at the Railway Station would be extended by 400 spaces.

<sup>100</sup> In December 2010, the Gosford City Council advised ANAO that 'council was committed to explore all possibilities to ensure that the Central Coast Community, in particular its commuters, benefited from funds made available under the Better Regions Program'. Council further advised ANAO that 'the purchase of Gosford Town Centre enabled the commitment for 400 commuter parking spaces to be met for an amount which would not have built the same capacity.'

**3.52** The published Program Guidelines further stated that, based on the information provided by project proponents, the department would undertake a risk analysis of the proposal, with the following to be examined:

- project results;
- proponent viability; and
- project viability.

**3.53** The departmental briefs provided to the Ministerial decision-maker identified whether there were any risks to the successful implementation of the project and, if so, the strategies the department proposed be employed to manage the risk(s). There were no projects where the advice to the decision-maker was that the risks associated with a project were too high such that the department recommended that funding not be approved.

**3.54** As the focus of the risk assessment results was on whether there were any identified risks to the successful implementation of the project, the management of identified risks for approved projects is examined further in Chapter 4, which examines program and project delivery.

## **Assessment criteria**

**3.55** In administering a grant program that is being used to fund election commitments, an important role for agencies in putting projects forward for possible funding approval is to ensure Ministers are appropriately informed as to the nature of the project and whether it is likely to make proper use of the public money. The 2008 Strategic Review emphasised this point, as follows:

The statutory obligations applying to the approval of spending proposals deriving from election commitments are no different from those attaching to the approval of any other spending proposal; accordingly, departments should provide their Ministers with advice on options for the funding of election commitments, having regard both to a Minister's statutory obligations and the extent to which the spending proposals satisfy the eligibility or assessment criteria for grant programs which might be used to fund the commitments.

In preparing their advice to Ministers on the funding of election commitments, departments have a responsibility to ensure that Ministers are appropriately informed both as to the nature of the spending proposal and whether it is

likely to make efficient and effective use of public money (consistent with the requirements of FMA Regulation 9).<sup>101</sup>

**3.56** The need for appropriate examination of whether a project would make efficient and effective use of public money had been recognised in the Better Regions Program documentation (including in the Program Guidelines).<sup>102</sup> In this context, an April 2009 Internal Audit review of the Better Regions Program noted that the published Better Regions Program Guidelines had outlined that there would be both an assessment of whether each project would make efficient and effective use of public money as well as an assessment as to whether any risk management strategies would need to be imposed as a condition of funding. However, the Internal Audit found that whilst risk assessments had been documented for projects being considered for Better Regions funding, the risk assessments alone may not be sufficient to satisfy the requirements of FMA Regulation 9 in respect to the efficient and effective use of public money.<sup>103</sup> In particular:

outside of the risk analysis, it was not clear what assessment has been performed, or what the department considers should be performed, to justify an efficient and effective use of public money.

**3.57** As indicated by the Internal Audit review, whilst risk assessments can provide useful input to inform an assessment as to whether a project represents efficient and effective use of public money, assessments of applicant and project viability alone could not, in the context of the Better Regions Program, satisfactorily and fully address whether a proposed grant would make an efficient and effective use of public money.

**3.58** Further in respect to the approach taken for considering whether funding should be approved for projects relating to election commitments that were allocated to the Better Regions Program for administration, in May 2009 the Department of Finance and Deregulation advised DITRDLG that:

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<sup>101</sup> *Strategic Review of the Administration of Australian Government Grant Programs*, op. cit., p. 63.

<sup>102</sup> See paragraphs 3.8, 3.10, 3.14, 3.33 and 3.34.

<sup>103</sup> In this respect, the Internal Audit report specifically drew the department's attention to the relevant findings of ANAO's audit of the Regional Partnerships Program. As outlined at paragraph 3.8, there was a stated intention that the Better Regions Program guidelines and procedures be developed in a way that would ensure that the implementation of the election commitment projects was consistent with all relevant requirements of the FMA Regulations, the ANAO Better Practice Guide on the Administration of Grants and the recommendations from the ANAO Performance Audit of the Regional Partnerships Program.

While the letters [*to project proponents from the Minister and the department respectively in relation to election commitments*<sup>104</sup>] refer to a specific dollar amount for a project, there does not appear to be a commitment to provide this money to the project proponent. Rather, the letters appear to explain that the Government is working on how to implement election commitments (for the first letter) and what steps and actions would be involved for the potential project funding to be approved if it were to be approved (in the second letter). Given this wording, the letters do not appear to be a simple conditional commitment of funds, rather they appear to set out what process the potential project funding recipient needs to go through in order to potentially receive funds. Of particular note is the reference that there is an application process, which includes assessment of the project by Government where the Government needs to be satisfied that the project would be an efficient and effective use of public money.

**3.59** In this context, as outlined at paragraph 3.46, funding decisions under the Better Regions Program considered whether the project was consistent with the announced election commitment. However, consistency of a project with the details of an announced election commitment does not, in and of itself, mean that the spending of public money in respect to the project represents efficient and effective use of Commonwealth funds.

**3.60** In this respect, when providing the draft Better Regions Program Guidelines to the then Prime Minister for Expenditure Review Committee consideration, the then Minister for Infrastructure, Transport, Regional Development and Local Government had noted that the Guidelines addressed program criteria, including assessment criteria. However, the Guidelines developed by the department and later provided to project proponents and published on the department's website did not include any criteria to be used by the department to assess whether individual projects represented an efficient, effective and ethical use of public money for the purposes of satisfying FMA Regulation 9.

**3.61** Nevertheless, in the briefing recommending funding approval in respect to most<sup>105</sup> Better Regions projects the department provided the then Parliamentary Secretary with a clear statement as to whether it considered the provision of funding for the project represented efficient and effective use of

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<sup>104</sup> See, for example, paragraphs 3.32 and 3.33 in relation to letters sent to election commitment project proponents by the then Parliamentary Secretary for Regional Development and Northern Australia.

<sup>105</sup> See paragraph 3.41.

public money. However, whereas the department's advice to the then Parliamentary Secretary on project risks was supported in each brief with an attached table summarising the identified risks and proposed risk management strategies, there was no explicit advice from the department which outlined the basis on which the department had concluded that the spending of public money represented efficient and effective use of public money. In this respect:

- as noted at paragraph 3.37, information was not sought from project proponents on the intended benefits/outcomes from their project; and
- a more robust procedure was developed by the department in respect to Election Commitments announced in respect to the AusLink Strategic Regional Program/Off-Network Program. In this respect, as outlined in ANAO Audit Report No. 30 2009–10, the proforma Minute to the Ministerial decision-maker included in departmental procedures for that Program included the following:

On the basis of our assessment, we consider that it is a proper use of Commonwealth resources because the project will [*describe the project outcomes e.g. deliver X lanes, improve safety etc*] and is considered value for money. We therefore consider that the project meets the requirements of Regulation 9. Further justification against Regulation 9 is provided in Section 13 of the Project Assessment Report at [Attachment A](#).<sup>106</sup>

**3.62** The absence of any assessments against criteria to support the advice to the Parliamentary Secretary that projects represented efficient and effective use of public money was particularly apparent with respect to those projects allocated to the Better Regions Program that had previously been assessed under the Regional Partnerships Program. In this context, as noted at paragraph 1.2, in March 2008 the Minister had advised the then Prime Minister that the administration of the Better Regions Program would reflect the recommendations and findings of the ANAO audit of the Regional Partnerships Program, as well as the recommendations contained in the review of discretionary grants being undertaken by the Minister for Finance.

**3.63** Although 38 Coalition election commitments from the 2004 election campaign were allocated by the then Government for funding through the

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<sup>106</sup> ANAO Audit Report No. 30 2009–10, op. cit., p. 243.



Regional Partnerships Program,<sup>107</sup> in the main that earlier program was application-based whereas the Better Regions Program was not open for new applications. Nevertheless, there was an important similarity in the project assessment arrangements in that projects were assessed in isolation to one another rather than eligible applications competing for a quantum of available funding. In any event, the obligation to assess the efficient and effective use of public money for a proposed grant is the same regardless of how a project proposal comes before an approver and regardless of whether project proposals are assessed and ranked in comparison to one another.

**3.64** In this context, the Regional Partnerships Program Guidelines included assessment criteria for the explicit purpose of informing an assessment of the value for money an individual proposal offered in its own right. Similarly, election commitments allocated to the Better Regions Program were not competing for a quantum of available Program funding but were to be assessed individually.

**3.65** However, whereas the Better Regions Program Guidelines did not include any assessment criteria, the published Guidelines for the Regional Partnerships Program had stipulated that priority would be given to those projects that demonstrated value for money, which would be determined taking into account the total request for Regional Partnerships funding and the extent to which the project met assessment criteria relating to project outcomes, partnerships and support, applicant viability and project viability.<sup>108</sup> ANAO's audit of the Regional Partnerships Program concluded that:

- although broadly expressed, the assessment criteria were sound and appropriate to the Program; and
- experience had shown that applications which demonstrably satisfied the criteria were considerably more likely to result in projects that delivered sustainable outcomes in accordance with the timeline and budget specified in the Funding Agreement and having secured the necessary partnership funding.<sup>109</sup>

<sup>107</sup> ANAO Audit Report No. 14 2007–08, Volume 2—Main Report, op. cit., pp. 140–145.

<sup>108</sup> Noting that one of the significant issues raised in the audit of the Regional Partnerships Program had been the extent of departures from the published Program Guidelines, including the approval of funding for projects notwithstanding that one or more criteria had not been satisfied and the approval of funding for projects prior to any assessment being undertaken against the published criteria.

<sup>109</sup> ANAO Audit Report No. 14 2007–08, Volume 1—Summary and Recommendations, op. cit., p. 21.

**3.66** In this context, in March 2008 DITRDLG had advised the then Parliamentary Secretary that:

Twenty six of the 'Better Regions' 2007 election commitment projects had been submitted for funding under the Regional Partnerships Program. Six of these projects were not recommended by the department because they did not meet the Regional Partnerships guidelines. The department will undertake a new assessment of these against the Regional Election Commitments Guidelines. It may be necessary to obtain additional information from the relevant proponents to undertake the risk assessment. Each request to these proponents will be tailored to the circumstances of these projects and will depend on the potential risk level and the information already provided.

**3.67** In total, 44 of the 106 projects allocated to the Better Regions Program had been the subject of earlier applications to the Regional Partnerships Program. In 23 instances, the department had yet to complete its assessment of the application. Of the remainder:

- in 13 instances, the department had assessed the application as meeting the Regional Partnerships Guidelines and recommended that funding be approved. In each instance, the Regional Partnerships Ministerial Committee had approved funding for the application. In two instances,<sup>110</sup> a Regional Partnerships Program Funding Agreement had been signed prior to the Better Regions Program being established in the context of the May 2008 Budget. For the remaining eight such projects, Better Regions Program funding was later approved by the then Parliamentary Secretary (in place of the Regional Partnerships Program funding) based on a departmental assessment of information

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<sup>110</sup> For one project, the Murray Sports Complex in Townsville Queensland, the funding amount recommended and approved under the Regional Partnership Program in May 2007 was \$3.05 million (the proponent had originally submitted a Regional Partnerships application seeking \$6.65 million for the project, but that application had not been recommended by the department and was not approved). Also in May 2007, the then Opposition Leader made a funding commitment of \$6.5 million to deliver the Murray Sports Complex. A Funding Agreement for the funding approved under the Regional Partnerships Program was executed with the proponent on 16 October 2007. Accordingly, only the balance of \$3.45 million of the election commitment was proposed to be funded under the Better Regions Program. At the time of exercising the FMA Regulation 9 approval for this project, the then Parliamentary Secretary approved a contract variation to the Regional Partnerships Funding Agreement as the approved works needed to be re-scoped to enable Regional Partnerships funding of \$3.05 million to be spent by 30 June 2010 and Better Regions funding of \$3.45 million to be spent by 30 June 2011. Subsequently, the Regional Partnerships Funding Agreement was terminated by mutual agreement and a combined Better Regions/ Regional Partnerships Deed of Agreement for the full \$6.5 million was executed between the Commonwealth and the proponent on 8 February 2010.

submitted by the project proponent in response to the request for a Better Regions Program project proposal; and

- in eight instances, the department had assessed the application as not meeting the Regional Partnerships Guidelines and recommended that funding not be approved. For one of these projects, the Regional Partnerships Ministerial Committee had, instead, decided to approve funding (following two appeals from the applicant) and a Funding Agreement had been signed in November 2007. Of the remaining seven not recommended projects, the Ministerial Committee had agreed with the departmental recommendation in one instance but had not yet made a decision in respect to the other six applications at the time of the 2007 election.

**3.68** The Regional Partnerships application where the Ministerial Committee had agreed with the departmental recommendation to not approve funding involved a request for \$1.5 million in Regional Partnerships funding towards a \$5.8 million project to construct an all-weather, sun-safe indoor multipurpose sports centre in rural mining town of Dysart (within the electorate of Capricornia). In July 2007, the department had advised the Regional Partnerships Ministerial Committee that the application did not meet the assessment criteria of outcomes, competitive advantage and project viability.<sup>111</sup> The Ministerial Committee made a decision to not approve Regional Partnerships funding for this project.

**3.69** In May 2009, the department recommended that the then Parliamentary Secretary approve \$1.5 million in Better Regions Program funding for the Dysart Indoor Multipurpose Sport and Recreation Centre. The department did not advise the then Parliamentary Secretary that this project had been the subject of an unsuccessful application under the Regional Partnerships Program, or of the concerns raised by the department in its assessment of that application. The brief provided to the then Parliamentary Secretary included the proforma statement that:

Based on the information presented by the proponent, the department believes that provision of funding for this project in its current form represents an efficient and effective use of public money.

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<sup>111</sup> The Committee was also advised that the project budget included contingency costs which were ineligible for Regional Partnerships funding.

**3.70** The department's advice did not identify the reasons for the department reaching this conclusion, and the information provided by the proponent that was relied upon by the department was also not provided to the then Parliamentary Secretary. The department's briefing material also did not outline whether the previously identified concerns in relation to value for money in respect to this project had been addressed. The shortcomings identified with respect to the Regional Partnerships application were not addressed in the department's May 2009 advice to the then Parliamentary Secretary. However, in preparing for the May 2009 Budget Estimates, DITRDLG prepared a comparison as to the reasons why the four factors that led it to recommending against Regional Partnerships funding for the project did not similarly lead to a recommendation against Better Regions Program funding being approved. Specifically, the department recorded that:

- competitive advantage issues were not considered with respect to Better Regions projects;
- Isaac Regional Council had supplied a report with various tables that the department considered had demonstrated the viability and sustainability of the project; and
- in respect to the value for money to be obtained from the \$1.5 million in Australian Government funding:

since original Regional Partnerships assessment, due to the mining boom, the population of Dysart has grown rapidly and is considered on ABS website as a Queensland 'boom-town', with a predicted annual growth rate of between 6-8%. There are seven mines now working within a 30km radius of Dysart-a new mine opening within the last 12 months. There are a large number of workers in the mines who may not be considered in Dysart's population but who are potential users of the facility.<sup>112</sup>

**3.71** In November 2010, RA advised ANAO that:

In relation to Better Regions project proposals that had previously been assessed under the Regional Partnerships Program, the department took the view that, as the guidelines were quite different to those of the Better Regions

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<sup>112</sup> In respect to the value for money of the Regional Partnerships application, Ministers had been advised that: 'As there is already a large range of recreational options in Dysart and surrounding towns, the department has considerable concerns that the Regional Partnerships contribution of \$1.5 million exceeds the benchmarks contained in the Guidelines for describing good value-for-money outcomes. These are less than \$25 000 for each new job created and less than \$1000 for each likely user of the facility.'

Program, a new assessment would be undertaken against the new guidelines. On that basis, no reference was made to the previous assessment under the former program. As identified in the Senate Estimates brief cited, in some cases the supporting information provided as part of the application and the circumstances around individual projects may have changed since the Regional Partnerships application.

The department agrees that, in retrospect, additional information could be provided in individual project assessments and recommendations to inform the Minister and assist in recording the basis of a spending proposal.

**3.72** Concerns in relation to claimed project outcomes had also been a consistent feature in the department's earlier assessment of the other seven Better Regions Projects that had been the subject of a Regional Partnerships application that the department had recommended not be approved for funding (and in respect to which the Ministerial Committee had yet to make a decision at the time of the 2007 election). For example, in respect to the project to undertake stages two and three of the Waroona Town Centre redevelopment (located in the Western Australian electorate of Canning), the department had advised Ministers in respect to the Regional Partnerships application for \$346 000 that:

The applicant has not provided evidence to substantiate that its claimed outcomes relate directly to this project. The department considers the activities of this project, including paving, the installation of street furniture and the construction of paths cannot realistically be attributed to increased long term employment opportunities of anywhere near the magnitude claimed.

Furthermore, as previously mentioned, Regional Partnerships funding was used towards stage one of this project. The outcomes for stage one were nearly identical to those stated for stages two and three. The Department considers that as \$286 550 (GST inclusive) of Regional Partnerships funding has already been used towards stage one to achieve virtually the same outcomes, the outcomes of stages two and three of the project do not represent value for money.

**3.73** The December 2008 Better Regions project assessment provided to the then Parliamentary Secretary did not advise that the project had been the subject of an earlier Regional Partnerships application that had been assessed as not representing value for money. Instead, the department advised the then Parliamentary Secretary that it:

has undertaken a risk analysis which has identified no risks that require treatment that could impact on the achievement of value for money for the Commonwealth. As a result, based on the information presented by the

proponent, the department believes that provision of funding for this project in its current form does represent an efficient and effective use of public money.

**3.74** The likely project outcomes were also a significant issue in respect to the department's assessment of the aforementioned Tree of Knowledge project under the Regional Partnerships Program (see paragraphs 2.27 to 2.29), but were not similarly examined in relation to the Better Regions Program project proposal. For that project, Better Regions Program funding was approved in January 2009 on the basis of advice to the department from the then Parliamentary Secretary that the 2007 Election Commitment announcement related to the first stage of a multi-stage tourism improvement plan. Council's original project plan submitted to the Queensland Government for funding for this project had noted that maximising the benefits from preservation of the Tree of Knowledge and construction of the Memorial required the later stages to be undertaken. In this respect, prior to the 2007 election, the department had completed its assessment of a Regional Partnerships application for \$2.6 million in funding towards Stage 1 of the overall project and had concluded that the project did not satisfy the Local Support or Outcomes assessment criteria (at the time the 2007 election was called, the Ministerial Committee had not yet met to consider the department's recommendation that funding not be approved). In respect to project outcomes, the assessment had included a conclusion that:

The department also has concerns that the outcome of increased tourism is not achievable because this outcome pertains to Council's entire tourism masterplan for the town. As a standalone project the Department does not consider that the Memorial will attract a sufficient number of tourists to reverse the trend of declining tourism in this region.

**3.75** Similarly, the DITRD LG's Northern Queensland Regional Office's subsequent advice to the department's National Office in respect to the Better Regions project was that it was:

Hard to see how the expected outcomes could be reached; and provide value for money for the Australian Government and value-add to tourism in a substantial way if the scope is reduced and if the Australian Workers Heritage Centre is not on side and an integral part of the project.

**3.76** However, the assessment recommending that Better Regions funding be approved provided to the then Parliamentary Secretary by the department did not address whether the funding of Stage 1 alone (which had been identified as being the scope of the Election Commitment—see paragraph 2.29)

would provide value for money.<sup>113</sup> This reflected the absence of any documented consideration of project outcomes in the context of the department advising the then Parliamentary Secretary as to whether the department considered the spending of Commonwealth funds to meet the election commitment represented efficient and effective use of public money.<sup>114</sup> Nevertheless, in the letter to Council informing it that funding towards Stage 1 had been approved, the then Parliamentary Secretary stated that:

I urge you to work with other members of the community and relevant stakeholders to secure funding for the development of the next stages of the project to maximise the economic benefit of tourism in the region and attract more visitors to Barcaldine.

**3.77** However, the Funding Agreement did not include any obligations on Council with respect to the completion of later stages<sup>115</sup> of the overall project.<sup>116</sup> In March 2009, Council provided a letter of support to the Australian Workers Heritage Centre in respect to that entity's pursuit of funding for an interpretive

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<sup>113</sup> In this respect, in December 2010 the Australian Workers Heritage Centre advised ANAO that, 'implicit in our firmly held view, supported by the Independent Evaluation conducted by Management Effect is that the exclusion of the necessary crucial synergies that would be provided by the quality display and exhibitions within the Australian Workers Heritage Centre which would accurately interpret the history of the Tree of Knowledge would undoubtedly constitute separation rather than necessary linkage. The deletion of the Interpretive Centre from the Project Plan acted contrary to the best interests of maximising the short, medium and long term opportunities for very substantial economic contributions to the Barcaldine community, the outback region and play a central role in reversing the trend of declining tourism.'

<sup>114</sup> In November 2010, RA advised ANAO that: 'The department considers that, in the case of the Tree of Knowledge, the memorial is a standalone component and not reliant on the completion of additional stages. The project is viable in its own right while further stages would enhance the project they are not necessary for the operation of Stage 1.'

<sup>115</sup> In November 2008, Council had advised the Minister that the preliminary cost estimates for later stages included:

- \$2.5 million for a relocated visitor information centre, coffee shop, souvenir sales outlet and new entry-way for the Australian Workers' Heritage Centre;
- \$375 000 for a themed pathway to link the Memorial along the main street to the new entry facility; and
- \$3 million for an upgrade of the interpretation of the Tree of Knowledge story within the Australia Workers Heritage Centre.

<sup>116</sup> In December 2010, the Australian Workers Heritage Centre advised ANAO that, even though named by Council (see footnote 115), 'the Australian Workers Heritage Centre was not part of the planning process nor decision making which determined the proposal for later stages as outlined and further has not indicated its agreed involvement.'

centre.<sup>117</sup> In September 2010, the Tree of Knowledge Development Committee Inc., trading as the Australian Workers Heritage Centre (a not-for-profit incorporated entity), provided ANAO with a copy of its current master plan for the upgrade of the government worker displays at the centre, which formed the first stage of a broader five year plan. ANAO was advised that the master plan had been prepared in partnership with the Queensland Government and a copy had been provided to Council for any input it may have.<sup>118</sup> The master plan included an overall budget in the order of \$4 million to, amongst other things, renovate and upgrade displays (the interpretive centre mentioned in the Election Commitment announcement (see paragraph 2.27) would have included a significant portion of the works outlined in the master plan).

**3.78** A reduced outcome from that proposed in the original election commitment announcement was similarly evident in a number of the Better Regions Program projects that were not related to a previous Regional Partnership application. For example, as outlined at paragraphs 2.22 and 2.23, in April 2009 the scope of the \$3 million commitment under the Better Regions Program to renovate and expand the existing Casino library for it to become the Casino Community Centre was varied such that the envisaged benefits of co-locating all services would not be achieved. Another such example involved the Sunrise Rotary BMX Park project, in the central Queensland electorate of Flynn. The 2007 election commitment announcement in relation to that project<sup>119</sup> stated:

Federal Labor will invest \$200 000 in the development of a multi-purpose facility in Emerald to provide a BMX facility, Skate Park, Bicycle Training Area and amenities building. The \$400 000 project will be delivered in partnership with Emerald Shire Council who has committed \$200 000 to the project.

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<sup>117</sup> In addition, in late 2009 road upgrade works were undertaken near the Tree of Knowledge and, in March 2010, Council: decided to form a committee to progress the Stage 2 of the Cultural Master Plan for Barcaldine; and accepted a quote for the design of interpretive signage for the Tree of Knowledge Memorial. In December 2010, the Australian Workers Heritage Centre advised ANAO that, 'the Australian Workers Heritage Centre is not represented on the Council's Cultural Master Plan committee formed in March 2010 to progress Stage 2 which we are not privy to.'

<sup>118</sup> In December 2010, the Australian Workers Heritage Centre advised ANAO that, to date, the Barcaldine Regional Council had not responded with 'any acknowledgement, input, comment or indication of support.'

<sup>119</sup> The Shadow Minister for Trade and Regional Development, The Hon Simon Crean MP; the Shadow Minister for Transport, Roads and Tourism, The Hon Martin Ferguson MP; and the Labor Candidate for the Electorate of Flynn, Mr Chris Trevor, '*Labor supports the Central West Queensland Growth Corridor*' 15 November 2007.



**3.79** On 26 May 2009, the then Parliamentary Secretary agreed with a departmental recommendation to approve Better Regions Program funding of \$200 000 for a project that addressed the full scope of work as set out in the election commitment announcement. However, during the subsequent Funding Agreement negotiations, Council advised the department that, although the skate park component was announced in the election commitment media release, it was not intended to be part of the project as a skate park was no longer a priority for the community as part of the Sunrise Rotary BMX Park facility (and that there was already an existing skate park at another location in Emerald).

**3.80** The department was satisfied that the changes to the scope of the project, and additional funding from the Queensland State Government (of some \$200 000), would deliver the key results of the election commitment project; that is, the development of a multi-purpose facility to provide better and more appropriate sport and recreational facilities for young people in Emerald. The department recommended that the reduced scope be approved, and the then Parliamentary Secretary did so 11 August 2009.

**3.81** In November 2010, RA advised ANAO that, in respect both the Casino Community Centre project and the Sunrise Rotary BMX Park facility, the department considered the revised projects still met the intent of election commitment and, in both cases, the Minister agreed with the department's recommendation that they did.

## Recording of reasons for decisions

**3.82** As noted at paragraph 3.2, since December 2007, the financial framework applying to grants decision-making has been progressively enhanced. A key part of these enhancements was the introduction, on 1 July 2009, of a new framework for the administration of grant programs by agencies subject to the FMA Act. Amongst other things, the new framework involved an amendment to the FMA Regulations to require that approvers, including Ministers, must make a written record of the reasons for decisions to approve a grant; that is, record the basis on which he or she was satisfied that the proposed grant satisfied the requirements of FMA Regulation 9. The introduction of this requirement was consistent with the conclusion made by the July 2008 report of the Strategic Review of Grants that:

Given the fundamental importance of the approval process in relation to the expenditure of public funds, and for accountability purposes, it is critical that agencies have a clear understanding and record of Ministerial decisions. In

that context, the recording of the reasons for Ministers' decisions to approve or not approve a grant application has been widely recognised as sound administrative practice, including in the views expressed by a number of Parliamentary Committees.

Under current policy, however, there is no requirement on Ministers (or other approvers) to document the reasons for their decisions, as distinct from the terms of those decisions, even in cases where they take a different position from the advice presented to them. While it is open to an agency to invite a Minister to document his or her reasons for a funding decision, and this has sometimes been done, it is equally open to a Minister to decline such a request, and this also has been done.

In view of the clear evidence of irregularities in past decision-making on discretionary grants, and given public concerns in this respect, the Review considers that there is a strong case to mandate a new requirement on the approvers of grant program spending under FMA Regulation 9 to document the *basis*, as well as the *terms*, of their approvals.<sup>120</sup>

**3.83** As noted at paragraph 3.24, in March, June and July 2008, the department provided the then Minister and the then Parliamentary Secretary with advice on proposed procedures for the funding approval processes for the Better Regions Program. The only aspect where this advice did not propose to implement better practice grants administration principles was in respect to the documenting of reasons for any decisions to reject departmental recommendations. In this respect, the March 2008 advice commented that:

FMA Regulation 12 requires that the decision-maker should document the terms of the approval of the expenditure of public money made under FMA Regulation 9. While the ANAO Better Practice Guide recommends that decision-makers document the basis of their decisions that are contrary to the recommendations of officials, you are not formally required to do so under the FMA legislation. Should you choose to make such a record, provision will be made in the documentation for your notes.

**3.84** The department did not draw attention to the earlier recommendation (agreed to by Finance) in the November 2007 report on the audit of the Regional Partnerships Program that Finance assess the merits of proposing amendments to the FMA Regulations that would have the effect of requiring approvers to document the basis on which the approver is satisfied that the

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<sup>120</sup> *Strategic Review of the Administration of Australian Government Grant Programs*, op. cit., p. 9.

proposed expenditure represents efficient and effective use of the public money and is in accordance with the relevant policies of the Commonwealth.<sup>121</sup>

**3.85** As at 1 July 2009, there remained 20 Better Regions projects in respect to which funding decisions had not yet been made such that the amended FMA Regulation 12 requirement would apply to any subsequent decision to approve funding for those projects. Accordingly, the department amended its proforma briefing material with the intention of reflecting the amendments to the FMA Regulations that came into effect on 1 July 2009. However, the amended briefing material did not effectively address the change made to the financial framework with respect to the recording of reasons for grant funding decisions.

**3.86** Rather than directly citing the new requirement under FMA Regulation 12 (which is to record in writing the basis on which the approver was satisfied that the spending proposal complied with FMA Regulation 9; that is, that it represented efficient, effective and ethical use of public money that is not inconsistent with the policies of the Commonwealth), the briefing material referred to a synopsis of the new requirement outlined in the CGGs (being that ‘in recording the basis of the approval, an approver must record substantive reasons for the approval, in addition to the factual terms of the approval’).

**3.87** FMA Regulation 9 establishes a single test, comprising a number of elements, which must be applied by an approver.<sup>122</sup> Under the revised FMA Regulation 12, in addition to recording the terms of the approval<sup>123</sup>, the written record of the approval of a grant must address each element of the FMA Regulation 9 test, being:

- the reasonable inquiries that were undertaken to inform the decision; and
- why the spending proposal was considered to be an efficient, effective and ethical use of Commonwealth resources; and

<sup>121</sup> ANAO Audit Report No. 14 2007–08, Volume 1—Summary and Recommendations, op. cit., pp. 23 and 121.

<sup>122</sup> Department of Finance and Deregulation *Commonwealth Grant Guidelines—Policies and Principles for Grants Administration*, Financial Management Guidance No. 23, July 2009, p. 7 and Finance Circular 2009/05, *Commitments to spend public money (FMA Regulations 7 to 13)*, 29 June 2009, p. 9.

<sup>123</sup> The terms of an approval relate to factual matters including who is the approved recipient, how much has been approved and the purpose for which the funding has been approved.

- how the conclusion was reached that the grant was not inconsistent with the policies of the Commonwealth.<sup>124</sup>

**3.88** Under this enhanced framework it is not sufficient for the written record of a grant approval to merely assert that FMA Regulation 9 has been met by the proposed grant. In this respect, each of the briefs recommending that a Better Regions project be approved for funding provided to the then Parliamentary Secretary by the department after 1 July 2009 included the proforma statement (see paragraphs 3.41 and 3.69) asserting the department's view that (based on the information provided by the proponent<sup>125</sup>) the project represented an efficient and effective use of public money. However, the departmental briefing material did not identify what inquiries the department had undertaken in respect to whether the proposed grant represented an efficient and effective use of public money, or the basis on which it had concluded that this element of the FMA Regulation 9 test had been satisfied.

**3.89** In the context of ANAO's recent audit of the Strategic Projects component of the Regional and Local Community Infrastructure Program, DITRD LG indicated to ANAO that it now has a better appreciation of its obligations under the enhanced grants administration framework. A better appreciation of the requirements of FMA Regulations 9 and 12 was evident in the second and third rounds of the Council Allocation component (currently also the subject of an ANAO performance audit). For the latter two rounds of that program, the department engaged a specialist assessor with experience in other Commonwealth grant programs, to assess, through a risk-based approach,<sup>126</sup> whether the proposed use of public money represented value for money. In particular, in addition to identifying any risks to the management of grant funding and the delivery and sustainability of the project, the specialist assessor was to determine whether:

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<sup>124</sup> The written record of the basis for the approval may be made by the approver or, where the departmental advice recommends that funding be approved and has outlined the basis for concluding that the proposed grant satisfies the requirements of FMA Regulation 9, the approver may, if he or she agrees with the reasons outlined in the departmental advice, rely upon that document as the written record of why the proposal was considered to represent efficient and effective use of public money.

<sup>125</sup> This information was not provided to the then Parliamentary Secretary such that reliance was placed solely on the departmental briefing material in determining whether the grant should be approved.

<sup>126</sup> Value for money reviews were conducted where the department held concerns about the past performance of the relevant Local Government Authority (LGA) funding recipient as well as in respect to those LGAs who were receiving the larger allocations under the program. In this respect, each of the project proposals to be reviewed were to be selected by the department.

- the budgets proposed represented a fair and reasonable estimate of likely costs, accounting for factors such as the nature and extent of the works to be undertaken, current industry pricing trends and standards and cost variances associated with projects in rural and remote locations; and
- the budgets proposed are unrealistic, such that there was a possible risk of fraud or risk to the viability of the project.

**3.90** As outlined at paragraph 3.63, the obligation to assess the efficient and effective use of public money for a proposed grant is the same regardless of how a project proposal comes before an approver and regardless of whether project proposals are assessed and ranked in comparison to one another. Accordingly, there would be benefit in the adopting a similarly robust approach in respect to the assessment of proposals to fund election commitments.

## Recommendation No.1

**3.91** Consistent with recent enhancements to the grants administration framework, ANAO recommends that the Department of Regional Australia, Regional Development and Local Government seek to better inform funding decisions by clearly identifying in its advice to Ministers the inquiries it had undertaken and the basis on which a proposed grant had, or had not, been assessed as representing an efficient and effective use of public money in the context of the published program guidelines.

### *RA response*

**3.92** RA agreed to the recommendation, and commented as follows:

The Department agrees with the ANAO's recommendation and other findings which will be taken into consideration in the development and implementation of guidelines and program management arrangements for future programs.

The Department notes the acknowledgement by the ANAO that overall the Better Regions program was effectively designed and has been well administered. The Department also acknowledges further refinements to the assessment process and subsequent advice to the Minister is required for future programs on the efficient and effective use of public money.

## 4. Project and program delivery

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*This chapter outlines progress with the implementation of the Better Regions Program including the approach taken to monitoring the progress of funded projects and reporting on Program achievements.*

### Introduction

**4.1** In announcing, in the context of an election campaign, a commitment to provide funding for a particular project should they win office, or be returned to office, a candidate and/or political party is hoping to influence the voting behavior of electors in the relevant electorate at the particular election. The extent to which the commitments made in that context relate to well developed and substantiated project proposals can vary extensively. Accordingly, such announcements carry an attendant risk that election commitments may not be able to be fulfilled in the manner announced once properly considered following the election within the context of the framework that operates to ensure public money is expended in a responsible manner.

**4.2** In this context, in March 2008 the department advised the then Parliamentary Secretary that only 20 (56 per cent) of the 36 election commitments made by the Coalition during the 2004 General election that had been subsequently allocated for funding through the Regional Partnerships Program had been completed at that time. As of March 2008, the remaining 16 projects were either still in progress (12 projects); had been funded only for the completion of a business plan because the project had been assessed as being insufficiently developed to warrant funding for full implementation (three projects); or had been approved for funding but a Funding Agreement had yet to be signed (one project). In respect to this situation, in March 2008 DITRDLG advised the then Parliamentary Secretary that:

Experience gained through the implementation of the 2004 Coalition election commitments informs us that a major difficulty will be the delays likely to occur because proponents are in various stages of readiness to start their projects. For example, some will be ready to start construction while other projects may be in the very earliest planning stage.

...The major reason for the delays in implementation of the 2004 commitments is that the projects were underdeveloped necessitating development of business plans.

Some election commitments required Federal and State Government statutory approvals (such as Development, Building, Heritage and Environment approvals) which caused major delays in commencement of projects following Ministerial approval.

Inadequate costings, inadequate quotes, increased building costs, amendments to the scope of the projects, and requests for further funding from the proponents, were features which caused delays in some projects.

**4.3** A significant number of the projects relating to election commitments made by the Labor party in the context of the 2007 election campaign and which were allocated to the Better Regions Program for funding following the election have exhibited similar characteristics. Whilst each of the 106 Better Regions projects were approved for funding,<sup>127</sup> departmental tracking of project progress indicated that, as of September 2010, only 35 projects (33 per cent) had been completed. The significant majority of projects had not.

**4.4** For example, on 5 November 2007 the Shadow Minister for Trade and Regional Development and the Labor Candidate for the Electorate of Blair in Queensland announced three projects in the Ipswich Growth Corridor to be funded under the Better Regions Program. None have been completed, and only one is considered by the department to be on track to be completed by 30 June 2011.<sup>128</sup>

**4.5** One of the projects not on track related to the construction of the proposed Ipswich Lagoon Pool. Consistent with the department's recommendation, \$3.4 million in Program funding was approved in October 2009 by the then Parliamentary Secretary conditional on the provision of evidence that the land where the project is to be located has been rezoned for recreational use. This was because the department's risk analysis had identified a number of risks to the project, including that the Ipswich City Council had yet to obtain approval from Queensland Government to rezone the land where the project was to be located.<sup>129</sup> At the time funding was

<sup>127</sup> As at October 2010, in three instances the department had recommended to the then Parliamentary Secretary that the offer of funding be withdrawn due to projects being unable to commence and be completed by 30 June 2011.

<sup>128</sup> The project in Ipswich considered by the department to be on track is the Ipswich Sports Stadium project involving an Australian Government funding commitment of \$3.3 million.

<sup>129</sup> Other risks identified by the department as endangering timely commencement of the project were that the project plans had not been finalised, the final project budget had not been confirmed, a construction tenderer had not been appointed, and confirmation had yet to be obtained that all relevant statutory approvals had been granted.

approved, it was expected that the rezoning process would be completed by October 2009. However, in June 2010 Council advised the department that the Lagoon Pool would not be built on the original proposed site due to community protests. In August 2010, Council wrote to the department offering an alternative project for consideration, being Stage 2 of the River Heart Parklands project. In November 2010, RA advised ANAO that it was preparing advice for its Minister on the Council's proposal.

**4.6** The other project not considered to be on track in Ipswich related to the announcement that \$3.3 million would be provided to Ipswich City Council for the Ipswich Performing Arts Centre. In November 2009, the then Parliamentary Secretary was advised that:

Ipswich City Council is ready to progress the Ipswich Civic Hall renovations and the detailed needs analysis and feasibility study (total \$2.0 million), however it has not yet identified a site for the new performing arts centre and it cannot commence detailed architectural design work and engineering site drawings until that site is confirmed (total \$1.3 million). To fund this component, Council will need to confirm the site and acquit funding before 30 June 2011.

**4.7** The then Parliamentary Secretary agreed to the department's recommendation that it approve the \$3.3 million in Better Regions Program funding. She also agreed to the department's recommendation that funding being administered through two separate Funding Agreements to minimise the risk that the overall project would be impacted by delays that may arise in the site identification process. A Funding Agreement for the \$2 million project to renovate the existing Ipswich Civic Centre and conduct of a detailed needs analysis and feasibility study for the design work for a new Ipswich Performing Arts and Convention Centre was signed on 5 July 2010.

**4.8** The risk management benefits of separating the funding for the two aspects became clear in June 2010, after Council advised DITRD LG that it was unlikely that the site for the Ipswich Performing Arts and Convention Centre would be selected by 30 June 2011. Council requested that the \$1.3 million second portion of the Better Regions Program funding be reallocated to the Ipswich Cultural and Creativity Hub project as an alternative project. Advice on Council's request had not been prepared and provided to the then Parliamentary Secretary prior to the commencement of the Caretaker Period for the 2010 General election. As indicated at paragraph 3.46, the administration of other Better Regions projects has been on the basis that the project must be consistent with the intent of the election commitment made



during the Election campaign, with other project proponents advised that it was not permissible to substitute the Election Commitment project with another project. In November 2010, RA advised ANAO that it was preparing advice for its Minister on the Council's proposal.

## Strategies for responding to delays in projects commencing

**4.9** Initially, the department proposed a single strategy to address delays in the 2007 election commitment projects allocated to the Better Regions Program proceeding. Specifically:

Given our previous experience where funding remains tied to stalled projects for an excessive period and is therefore not available for other purposes, it is proposed that proponents be required to submit their project proposals by no later than 31 August 2008. It is also proposed that any that do not meet this timeframe will no longer be eligible for funding under this initiative.

**4.10** The department later (in June and July 2008) proposed a more comprehensive response to delays in the commencement of election commitment projects. In this respect, in July 2008 the Minister agreed to the series of measures proposed by the department to review the Government's commitment to projects experiencing lengthy delays. Specifically:

- proponents would be required to submit project proposals by no later than 1 February 2009 (the sole strategy that had originally been proposed);
- proponents would be required to enter into a Funding Agreement within 16 weeks of the date of advice to them that funding has been approved for the project;
- for projects which require the funding of other partners in addition to the Commonwealth, proponents would be required to demonstrate that they have secured the required level of funding within 12 months of the date of advice to them that funding has been approved and prior to the payment of any Commonwealth funding; and
- for projects where statutory approvals are required (such as planning approvals) proponents would be required to obtain such approvals within six months of the nominated time stated in their project plan.

**4.11** The Minister further agreed that any projects that did not meet the 1 February 2009 timeframe for submitting project proposals would be referred

to the Parliamentary Secretary for consideration as to whether he wished to retain the commitment to fund the project. Other delays were similarly to be referred to the Parliamentary Secretary for him to decide, having regard to departmental advice on any mitigating circumstances, the nature of any commitment to the project.

**4.12** Against this background, the departmental risk assessments played a key role in seeking to identify risks to the successful implementation of projects, and in the development of strategies to manage any such risks that were identified.

## Assessment and management of project risks

**4.13** As outlined in Chapter 3, the published Program Guidelines stated that the department would undertake a risk analysis of the proposal. The risk assessments considered and rated risks in five categories namely: corporate and personnel matters relating to the proponent; the financial position of the proponent; the proponent's ability to manage grant funds; the proponent's ability to deliver the project and intended results; and the proponent's ability to sustain the project and intended results. These risk categories are similar to those used by the department across various of its funding programs including, for example, the Strategic Projects component of the Regional and Local Community Infrastructure Program (RLCIP).<sup>130</sup> Similar to that program, the documented procedures required that each Better Regions project be allocated a rating of *Very Low*, *Low*, *Moderate*, *High* or *Severe* against each of the five risk categories, together with an overall conclusion (but not an overall risk rating) from the department as to whether the risk assessment supported the approval of funding for the project.

**4.14** There were delays in the department completing its assessment of individual projects. In part, this was due to proponents not providing the requested information by the 1 February 2009 timeframe and/or the department seeking additional information to that provided. In addition, in the context of implementing the RLCIP (which was one of the Government's economic stimulus programs), in early 2009 staff within the Regional and Local Government Division were focused on the conduct of risk assessments for the

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<sup>130</sup> See ANAO Audit Report No.3 2010–11, *The Establishment, Implementation and Administration of the Strategic Projects Component of the Regional and Local Community Infrastructure Program*, Canberra, 27 July 2010, pp. 118–119.

Strategic Projects component of the RLCIP. Once this work was completed, there was a significant increase in the number of Better Regions project assessments that were provided to the then Parliamentary Secretary for his consideration (see Figure 3.2 in Chapter 3).

**4.15** The departmental briefs provided to the Ministerial decision-maker identified whether there were any risks to the successful implementation of the project and, if so, the strategies the department proposed be employed to manage the risk(s). Of the 104 projects that were subject to a Better Regions Program risk assessment, for 27 assessments the department did not identify any risks to the successful implementation of the project that were considered unacceptable or as requiring treatment. The remaining 77 projects had between one and six specified risks identified. There were no projects whose risk assessment, after taking into account any proposed risk management strategies, were rated as having a risk that was higher than *Very Low*, *Low* or *Moderate*. Accordingly, for each of the 77 projects with one or more risks identified, the department recommended that funding be approved by the relevant Parliamentary Secretary, subject to the department imposing the risk treatments identified in an attachment to the briefing.

**4.16** Most of the risks identified related to questions about whether the projects were sufficiently planned, designed (where relevant), costed and approved to proceed in a timely manner. As noted by ANAO in Audit Report No. 3 2010–11,<sup>131</sup> it is not feasible for all project risks to be managed in a cost-effective manner through Funding Agreements, particularly in circumstances where significant amounts of the grant are paid upon signing of the Funding Agreement. In particular, some risks are more cost-effectively managed prior to a Funding Agreement being signed or prior to any payments being made to the project proponent. These principles were reflected in the department's administration of the Better Regions Program, as follows:

- for 26 of the 77 projects with one or more implementation risks identified, the department proposed, and the then Parliamentary Secretary agreed, that at least some of the risks needed to be managed during the Funding Agreement negotiations; and
- for 75 of the 77 projects with one or more implementation risks identified, the department proposed, and the then Parliamentary

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<sup>131</sup> ANAO Audit Report No.3 2010–11, op. cit., pp. 41 and 140.

Secretary agreed, that one or more risks needed to be addressed through the Funding Agreement prior to any funding being paid.

## Development and signing of Funding Agreements

**4.17** Staff within DITRDLC's National Office were responsible for advising on the design of the Better Regions Program as well as for administering the application and assessment<sup>132</sup> processes. Once the Parliamentary Secretary approved funding for a Better Regions project, the relevant project files were transferred to one of the department's Regional Offices to negotiate and finalise the Funding Agreement.<sup>133</sup>

**4.18** While the advice to the Minister explained that proponents would be required to enter into a Funding Agreement (contract) within 16 weeks of the date of advice to them that funding has been approved, the published Program Guidelines softened this requirement by explaining that the department would work with the proponent with the aim of finalising the funding agreement within 16 weeks. The Guidelines went on to state:

The offer of funding may be withdrawn if the proponent cannot meet the timeframe, has not obtained agreement from the Department to obtain an extension to this timeframe, or if there are significant reasons as to why the project cannot commence.

**4.19** While the aim was to sign Funding Agreements within 16 weeks, there was considerable variability in the actual time it took to finalise an agreement. In this respect, in January 2010 the Parliamentary Secretary agreed to a departmental request to vary the administrative procedures associated with the 16 week timeframe as a number of projects had missed this timeframe and the department expected that others may also potentially do so. Specifically, the department sought endorsement of its approach of continuing to work closely with proponents, beyond the 16 week period to finalise Agreements as quickly as possible. The Parliamentary Secretary was advised that:

While the Guidelines allow for the offer of funding to be withdrawn should the 16 week timeframe not be achieved, to ensure that Better Regions

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<sup>132</sup> Departmental procedures also required that a Regional Office provide input to the assessment process in respect to any 'local knowledge'. See also paragraph 4.38.

<sup>133</sup> The draft Funding Agreement is sent to the National Office for quality assurance purposes, prior to being provided to the proponent for signature.

outcomes are realised the Department has negotiated and is continuing to negotiate Funding Agreements beyond the 16 week period.

Contracting delays have arisen due to various factors including difficulties experienced by proponents in securing co-funding, the need to vary some approvals as project specifications are finalised; and the need to clarify a ruling by the Australian Tax Office regarding the application of GST, which has since been resolved.

**4.20** Of the 101 projects where a Better Regions Funding Agreement has been signed, there were 43 (43 per cent) where the Agreement was signed within 16 weeks. The two projects that were executed in the shortest elapsed time, some two weeks and four weeks, were both finalised on 16 July 2010, the day prior to the 2010 caretaker period commencing.<sup>134</sup>

**4.21** By way of comparison, there were 58 projects where the Funding Agreement was signed more than 16 weeks after the relevant Parliamentary Secretary had approved the provision of Better Regions Program funding. The department had identified one or more implementation or sustainability risks in relation to 47 of those 58 projects.<sup>135</sup>

**4.22** For example, the longest elapsed time for executing a Funding Agreement was 69 weeks from the date of the original Parliamentary Secretary approval. In this instance, the project (Cairns Multi-Sport Stadium, in the electorate of Leichhardt) was approved funding subject, amongst other things, to confirmation of partnership co-funding. As co-funding from two partners had been withdrawn, approval was sought from the then Parliamentary Secretary in April 2010 to re-scope the original election commitment project. Once approval was provided for the re-scoped project, a Funding Agreement was finalised in 10 weeks.

**4.23** For those 11 projects where there was a delay of more than 16 weeks in signing a Funding Agreement but no risks had been identified by the department, it was also common for a variation to the project scope or milestones to be made after the Funding Agreement was signed. This was indicative that there were unidentified risks to project implementation. In these

<sup>134</sup> Being, in order, the \$7 million Gosford Railway Station Parking project located in the electorate of Robertson in NSW and the \$70 000 Sand Enrichment Study project added to the Program, located in the electorate of Dobell, also in NSW.

<sup>135</sup> In 20 of those instances, the department had recommended that the risk be addressed during the negotiation and management of the Funding Agreement, which provides some context for the delays in signing a Funding Agreement for such projects.

circumstances, compensating controls of delaying the signing of a Funding Agreement until there was sufficient clarity about the project, combined with structuring of grant payments to reflect expected project progress, can assist to protect the Commonwealth's interests. This was the approach the department pursued.

**4.24** For example, amongst these 11 projects was the commitment of \$1.8 million to the Blue Mountains City Council towards the \$14.6 million Blue Mountains Cultural Centre project located in Katoomba NSW within the electorate of Macquarie. Better Regions Program funding was approved in March 2009, with the departmental briefing advising the then Parliamentary Secretary that the department had not identified any risks to the successful implementation of the project that were unacceptable or required treatment. However, in November 2009, the then Parliamentary Secretary was advised that, in the negotiation of the Funding Agreement, the Wollongong Regional Office had identified that a significant amount of the activity to be funded by the Better Regions Program would occur after 30 June 2011 (including completion of construction and fitout of the cultural centre and library). As a result, the department recommended, and the then Parliamentary Secretary agreed, that:

- costs for legal and accounting services, probity consultants and all activities associated with the library which were not part of the original Better Regions Program funding approval would now be included in the revised budget in order to accommodate a redistribution of costs across the funding partners; and
- the Better Regions Program Funding Agreement would continue to require the Council to complete the cultural centre including the items covered by the original approval.<sup>136</sup>

## Financial management

**4.25** In developing strategies for paying approved grants to funding recipients, care needs to be taken to ensure that the strategy adopted for the payment of approved funds appropriately safeguards the public money and promotes achievement of the agency's obligation to make proper use of

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<sup>136</sup> As a result, while the final Better Regions Program payment is scheduled to be paid on 15 June 2011, the Funding Agreement signed on 3 February 2010 has a due date for the project completion report of 1 July 2012.

Commonwealth resources. In this context, the timing and structure of grant payments needs to appropriately reflect:

- the cash flow required in order to progress the project, including consideration of whether funding contributions required from the proponent and other sources are being applied to the project at the same proportional rate as the grant contribution<sup>137</sup>;
- the risk of non-performance of obligations, or non-compliance with the terms of the grant. In particular, the Commonwealth's capacity to influence project delivery can be expected to diminish once the grant has been substantially paid; and
- the cost to the Commonwealth, through interest foregone, of payment of grant funds earlier than needed to achieve Program objectives.

**4.26** The appropriate payment strategy will, in part, depend upon the nature of the grant program. For project-based grants, value for money and sound risk-management can be promoted by funds becoming payable only upon the demonstrated completion of work that represents a milestone defined in the relevant Funding Agreement.

**4.27** A practice commonly adopted by the former DITRDLG across a range of grant programs audited by ANAO in recent years was to pay a proportion of approved funding in advance upon execution of the Funding Agreement. In some instances, an initial payment of grant funding can be warranted in order to enable the funding recipient to initiate the project in a timely fashion. However, in many of the instances observed by ANAO, DITRDLG adopted a standardised approach under a grant program of paying a proportion of grant funding upon execution of Funding Agreements regardless of the relevant project's proposed timing and overall funding structure. In some cases, this approach has been used as a means of maximising Program expenditure in a given financial year. However, it may not be consistent with the obligation to make proper use of Commonwealth resources.

**4.28** A substantially more robust approach was adopted with respect to the Better Regions Program. There were no instances where a payment was based

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<sup>137</sup> In this respect, agencies should be alert to the potential for grant recipients to delay making any financial contribution to project expenditure until after the Commonwealth grant, and other sources where relevant, have been exhausted. This strategy can be used to transfer financing costs from the funding recipient to the Commonwealth. This is particularly relevant where the proponent had proposed funding its contribution to project costs through commercial borrowings.

on signing the Funding Agreement (as had been the case in previous ANAO audits). Further, except in instances where the project had sufficiently progressed in line with contracted milestones,<sup>138</sup> there were no Funding Agreements that involved a payment being made within the same month as signing of the Funding Agreement.

**4.29** For example, as outlined in ANAO Audit Report No.3 2010–11,<sup>139</sup> Byron Shire Council received funded both under the Better Regions Program (\$1.5 million for stage one) and the Strategic Projects Component of the Regional and Local Community Infrastructure Program (\$8 million for stages two and three) towards its Ewingsdale Sports and Cultural Facility. Whereas the Funding Agreement for the Strategic Projects component funding for the second and third stages of the project was signed in June 2009 with a \$2.8 million first installment payment for stages two and three being funded through the Strategic Projects component to be paid in June 2009 and paid at this time, a more prudent approach was taken with the development of the Better Regions Program Funding Agreement. In this respect, the assessment of the Better Regions application identified four risk mitigation strategies required to be implemented prior to any funding being released, namely:

- evidence that the Review of Environmental Factors had been completed and that no significant environmental factors had arisen as a result of the project;
- provision of a completed project plan;
- confirmation of final estimated project costs; and
- confirmation of all partner funding towards the project.

**4.30** As a result, the Better Regions Funding Agreement was not signed until 28 January 2010, with the first Better Regions payment of \$53 500 not due to be paid until 1 June 2010.

**4.31** More broadly, Figure 4.1 illustrates how Better Regions Program payments have been structured in a way that better reflects project cashflow requirements rather than attempting to escalate Program expenditure. As outlined at paragraphs 3.17 to 3.20, the approach adopted in the Better Regions

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<sup>138</sup> Project proponents had been informed that any work commenced on the project without a properly executed Funding Agreement would be at the proponent's own risk.

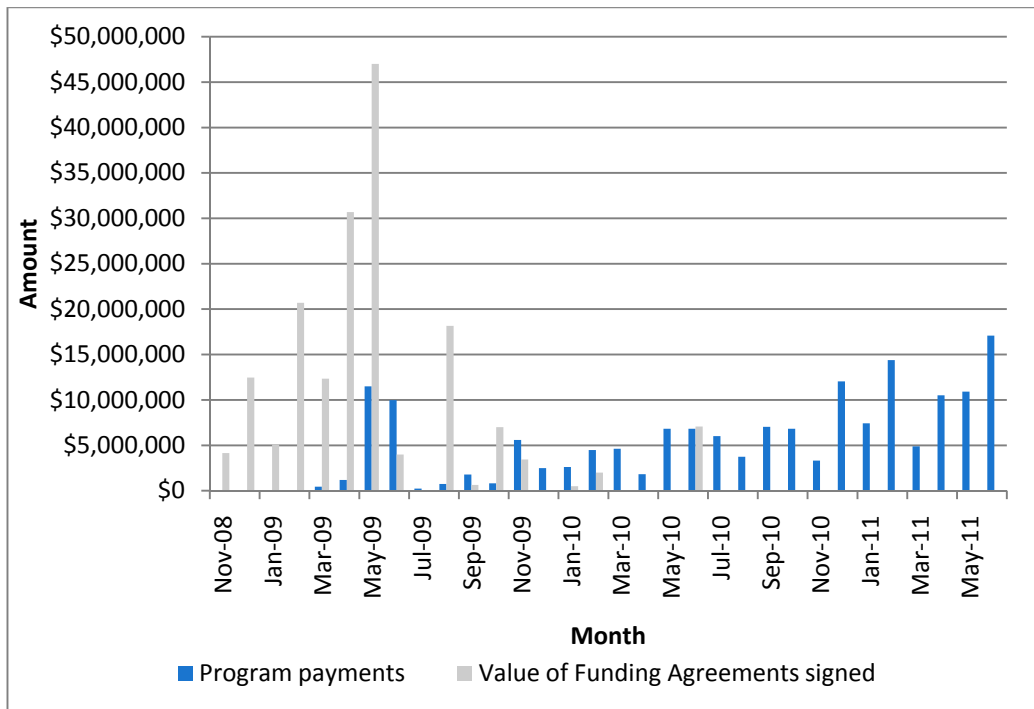
<sup>139</sup> ANAO Audit Report No.3 2010–11, op. cit., pp. 127–129.



Program of not making the first grant payment until any approval conditions were satisfied has proven particularly beneficial in respect to three projects where the department has found it necessary to recommend that the offer of funding be withdrawn.

**Figure 4.1**

**Value of Funding Agreements signed and payments made/contracted**



Source: ANAO analysis of DITRD LG data.

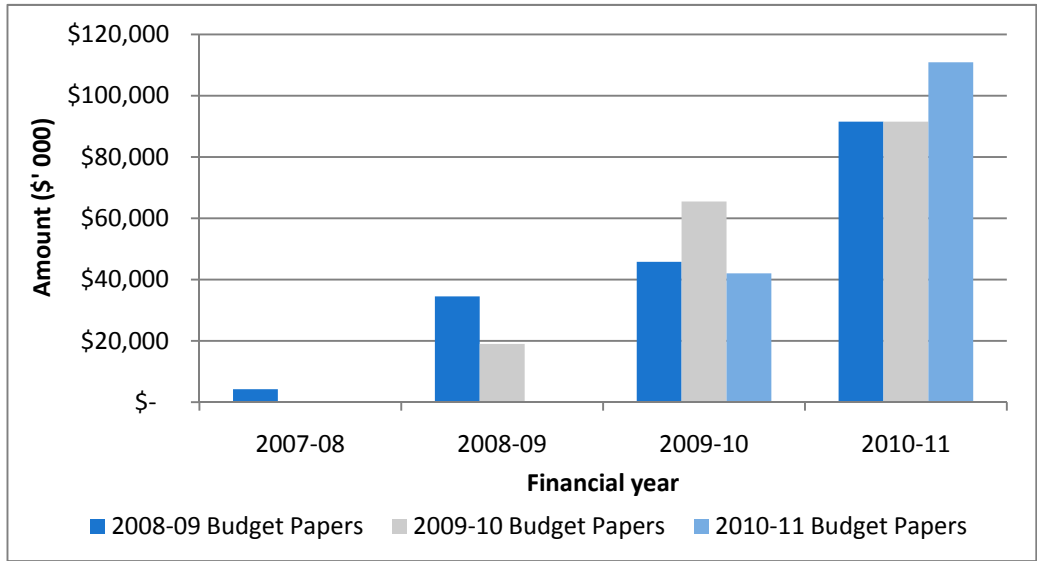
**4.32** One consequence of the approach taken to structuring project payments under the Better Regions Program has been delays in Program expenditure compared to the budget expenditure profile. This is illustrated by Figure 4.2. However, rather than reflecting poor program management, the delays in Program expenditure compared to the initial budget profile reflects, on the whole, a sound approach to managing risk.

**4.33** For example, on 26 May 2009 the then Parliamentary Secretary approved Better Regions Program funding of \$100 000 towards a \$208 000 project to construct a large metal shed that would act as a meeting place for farmers and other members of the Vietnamese community at Virginia in South Australia, in the electorate of Wakefield. Amongst other things, the department's risk assessment identified a risk that the project would be

delayed as the proponent had yet to obtain building approvals, project costings had not been finalised and partnership funding had yet to be confirmed. The Funding Agreement was drafted to address these concerns. There have been delays in the project obtaining its building approval. As a result, by the end of September 2010 no Program funds had yet been paid, although three payments totalling \$90 000 were scheduled to have been paid had the project proceeded in accordance with the contracted milestones.

**Figure 4.2**

**Annual administered expenses for the Better Regions Program**



Source: ANAO analysis of Portfolio Budget Statements for the Infrastructure, Transport, Regional Development and Local Government Portfolio.

**4.34** One area where an opportunity remains to further improve Program financial management involve instances of the continued use of strategies intended to enable appropriation funding to be spent rather than seeking to rephrase delayed expenditure. In three instances, the department has recommended to the then Parliamentary Secretary that the offer of funding be withdrawn due to projects being unable to commence and be completed by 30 June 2011. However, there were other instances where project scopes were varied so that all Better Regions Program funding would be spent on certain aspects of the project by 30 June 2011 with partner funding to be spent on the remainder of the project.

**4.35** This was the case in relation to the Blue Mountains Cultural Centre project mentioned at paragraph 4.24. Similarly, in August 2009, the then

Parliamentary Secretary approved Program funding of \$3 million towards a \$5.01 million project titled the Leisurelink Community Hub which was to design, construct and fitout Stage 2 of the project which would include a state of the art library and multipurpose rooms for the City of Greater Geelong, in the electorate of Corangamite. However, the City of Greater Geelong later indicated to the department that it could not complete the total project until October 2011<sup>140</sup> with the department recommending to the then Parliamentary Secretary that the Better Regions Program fund the design and construction components with the funding partners to complete the fitout.

**4.36** In November 2010, RA advised ANAO that:

For the three projects where the department recommended that funding be withdrawn, this advice was based on the fact that the projects could not commence and if alternatives were provided it was determined that they did not meet the intent of the election commitment. However, this does not mean the projects are ineligible under Better Regions, just that the currently proposed application should be withdrawn as they could not be delivered.

If the circumstances change and the proponent is able to identify means to implement the projects these projects could be reconsidered (for example, if the NSW legislation required to enable the Riverina Rail Trail Project is passed). The advice to withdraw the offer of funding for the Braidwood Arts Centre project has not been resubmitted for this reason – a revised proposal has been received from the proponent and is currently being considered to determine if it meets the terms of the original approval and can be delivered; if it requires further consideration by the Minister or if it is not achievable or inconsistent with the commitment.

In the case of the Blue Mountains and Leisurelink projects, both projects were able to proceed to complete a concrete element of the project within the scope of the election commitment, with the rest of the project to be delivered shortly afterwards using secured funding. The department recommended that approved funding be reallocated to components of the projects that could be completed within the program appropriation period. The department considered the risk of the project not proceeding to completion as low because of the commitment of other funding partners and the level of planning that had been undertaken.

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<sup>140</sup> In December 2010, the City of Greater Geelong advised ANAO that the project was now at the construction tender stage and was on schedule for completion in October 2011.

## Program monitoring and reporting arrangements

**4.37** Integral to the success of the grant funding process is an ongoing monitoring regime to ensure funding recipients are meeting agreed milestones and other key requirements of their Funding Agreements.<sup>141</sup> Further, measuring and reporting on performance is a key accountability component that enables program managers to objectively report on what has (or has not) been achieved and to respond in a timely manner to unexpected events.<sup>142</sup>

### Project monitoring

**4.38** Staff in the department's Regional Offices were responsible for managing the executed Funding Agreement between the Commonwealth and the funding recipient, including maintaining a good relationship with the funding recipient, monitoring progress of a project against identified milestones and recording on the project file all activities and any follow up that has been undertaken. Given the number and location of Regional Offices has been reduced over time, this meant that some projects (such as, for example, those in Western Australia<sup>143</sup>) were administered by departmental officers located in Regional Offices that are a considerable geographical distance from the project location.<sup>144</sup>

**4.39** Departmental procedures required that Regional Office staff use the regular and ad-hoc monitoring of the project as well as progress reports provided by the funding recipient to identify where Funding Agreement obligations are not being met. Within this overarching framework, each Regional Offices tailors the monitoring approach adopted, with the department's National Office conducting regular teleconferences with the Regional Offices so as to develop a consolidated appreciation of the status of each funded project, and the Program overall.

**4.40** In addition, in November 2009 DITRD LG formed a Program Board to oversight all programs within its Local Government and Regional

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<sup>141</sup> ANAO Audit Report No. 14 2007–08, Volume 2—Main Report, op. cit., p. 139 and ANAO Audit Report No. 29 2008–09, op. cit., p. 566.

<sup>142</sup> ANAO Audit Report No. 12 2010–11, *Home Insulation Program*, Canberra, 15 October 2010, p. 98.

<sup>143</sup> All Better Regions projects located in Western Australia were allocated to the Orange (NSW) Regional Office for management.

<sup>144</sup> Administering Funding Agreements from the department's National Office in Canberra would not have changed this situation.

Development Division which met monthly. The papers provided to the Board included a status report in respect to the Better Regions Program with information on aspects such as:

- Program activity (the number of applications received, the number of projects in respect to which Funding Agreements were being negotiated after funding approval, the number of projects where a Funding Agreement had been executed and the number of completed projects);
- the level of current and forecast Program expenditure; and
- Program resourcing and milestones.

**4.41** Further, on a number of occasions the department provided the Parliamentary Secretary with an update on implementation of the Better Regions Program. This reporting typically included information on the department's performance in obtaining information on the projects from project proponents, analysis of this information, the extent to which Funding Agreements had been signed for approved projects and progress in respect to the contracted projects.

## Program performance reporting

**4.42** The Better Regions Program was recognised as an administered program in the department's 2008–09 Portfolio Budget Statement, with the key performance indicators outlined in Table 4.1 (shared with other administered regional funding programs).

**Table 4.1**

### Better Regions Program key performance indicators

Key Performance Indicator	2008-09 Target
Programs support regional development including through funding for projects that partner with communities, government and business.	Projects are completed. All identified partners have contributed as agreed. Projects are sustainable.
Efficient and effective management of administered programs.	Programs are administered in accordance with relevant legislation, published guidelines and ANAO guidance.

Source: Infrastructure, Transport, Regional Development and Local Government Portfolio, *Portfolio Budget Statements 2008–09*, Budget Related Paper No. 1.13, May 2008, p. 64.

**4.43** In its 2008–09 Annual Report, DITRD LG reported its assessment of its performance against two of these indicators. Specifically, the department:

- reported that 38 projects had been contracted and one of these projects had been completed (elsewhere reporting 38 projects and three projects respectively<sup>145</sup>); and
- asserted that, in implementing the Better Regions Program it had developed processes and procedures consistent with the requirements of the FMA Act and the ANAO Better Practice Guide on the Administration of Grants.

**4.44** Similarly, in its 2009–10 Annual Report, DITRDLG reported against two of the four targets, as follows:

- as at 30 June 2010, all 106 Better Regions projects had been approved for funding, 100 projects had been contracted, 23 projects had been completed, and 10 projects had completed construction and were waiting for final reports and audits; and
- the department had developed processes and procedures consistent with the requirements of the *Financial Management and Accountability Act 1997*, the ANAO Better Practice Guide on the Administration of Grants and the Commonwealth Grant Guidelines.

**4.45** There was no reporting in either the 2008–09 or 2009–10 Annual Reports of performance in terms of whether identified project partners had contributed the agreed funding to the projects or in respect to the sustainability of projects.

**4.46** Although not reflected in the department's performance reporting, in some instances, changes in partner funding arrangements were sufficiently significant that the funded project required re-scoping. For example, in March 2009 \$1.5 million in Better Regions Program funding was approved towards the \$6.9 million Cairns Multi-Sport Stadium project within the electorate of Leichardt<sup>146</sup>. The project budget included partnership contributions of \$3 million from the State Government and \$900 000 from the Cairns Basketball Inc, neither of which had been confirmed. Due to neither of these partnership contributions being forthcoming, in April 2010, the then Parliamentary Secretary approved a reduced project scope. The project would now have five

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<sup>145</sup> On page 92 of its 2008–09 Annual Report, the department stated that it had contracted 38 projects of which one had been completed whereas on page 92 of the Annual Report the department stated that it had contracted 39 projects of which three had been completed.

<sup>146</sup> Also see paragraph 4.22.

stages with the Better Regions Program contributing towards stage one which would be limited to two multi-purpose court indoor stadium with the other aspects of the election commitment<sup>147</sup> deferred.

**4.47** As noted at paragraph 4.3, as of September 2010, 35 Better Regions Program projects had been completed, with Figure 4.3 depicting examples of completed projects funded by the Program that were inspected by ANAO.

### Figure 4.3

#### Examples of projects completed under the Better Regions Program



Redevelopment of the City of Playford Aquadome facility: \$2.2 million in Program funding.



Yamba Indoor Sport & Recreation Centre – Upgrade: \$2 million in Program funding.

<sup>147</sup> The other aspects of the commitment related to: a health and fitness studio, aquatic centre, remaining two courts and multipurpose spaces.



Upgrade to Fernleigh Track (from a disused railway corridor to a bike path): \$750 000 in Program funding. Upgrades to other sections have been funded, in part, under other Commonwealth programs. (Project nearing completion at time of site inspection).



Moorooka State School – Construction of the Multi-purpose Hall: \$300 000 in Program funding.

Source: ANAO site inspections.



**4.48** In addition to the completed projects, there were a significant number of projects that the department had assessed as being on track to complete by 30 June 2011. However, in addition to an increasing number of variations<sup>148</sup> being made to Funding Agreements to reflect project delays, there was an increasing likelihood that some projects would not be completed by 30 June 2011. In this respect, immediately prior to the commencement of the caretaker period for the 2010 General election, the department had advised the then Parliamentary Secretary that:

Infrastructure programs of this nature may experience delays due to issues such as weather, planning and environmental issues, variations to project scope in response to project cost increases and the withdrawal of partnership funding. On this basis a movement of funds of \$26.39 million from 2009–10 to 2010–11 was sought and approved providing a total appropriation of \$35 million for 2009–10. As the department exceeded this figure with \$36.14 million expended, the appropriation will require adjustment as part of the additional estimates process.

Our experience suggests that it is likely that some projects may encounter unanticipated delays, and an extension to the program and movement of funds into 2011–12 may need to be considered to enable projects to complete.

**4.49** However, as outlined at paragraphs 3.18 to 3.20, in three instances the department had earlier recommended to the then Parliamentary Secretary that the offer of funding be withdrawn due to projects being unable to commence and be completed by 30 June 2011. Following advice to the Minister in October 2010 on one of those projects and the prospect that a movement of funds from 2010–11 to 2011–12 may be necessary, the Minister requested further advice on the project. The department informed ANAO that it has since advised the Minister that there are potential delays in construction in relation to 32 projects which may require a movement of funds of up to \$31.34 million to enable those projects to complete in 2011–12.

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Ian McPhee  
Auditor-General

Canberra ACT  
27 January 2011

<sup>148</sup> Departmental tracking indicated that in the first nine months of 2010 there were 15 projects for which a Funding Agreement variation had been signed compared to two projects for calendar year 2009.



# Appendix



## Appendix 1: Formal Comments on the Proposed Report

### Department of Regional Australia, Regional Development and Local Government

I am writing to respond to the proposed audit report on the Better Regions program provided to the Department on 23 November 2010, pursuant to sub-section 19(1) of the *Auditor-General Act 1997*.

The Department acknowledges the Better Regions program audit report and recommendation will assist us in our commitment to implementing improved practice in grants management.

It is important to acknowledge that the Better Regions program was developed to implement specific election commitments announced publicly during the 2007 Federal election campaign. The Department's role was to provide advice on the implementation of the commitments, subject to the requirements of the *Financial Management and Accountability Act 1997*.

The Department notes the ANAO has acknowledged that, overall, the Better Regions program was effectively designed and has been well administered and that processes around grants management compared to some previously audited programs in the Department have improved in a number of key areas. These include identification and treatment of risk, developing funding agreements and managing program expenditure.

The Department undertook a risk assessment for each project identified by the Government to inform the Government of the risks associated with implementing each election commitment project. Based on the findings of the proposed audit report, the Department recognises that further refinements on the assessment process and subsequent advice to the Minister on each project are required. On this basis the Department agrees with Recommendation 1.

The Department is of the view that paragraphs 2.30 through to 2.35 of the proposed report go beyond the performance audit objective and scope: 'The objective of the audit was to assess whether the Better Regions Program has been effectively designed and administered. The audit scope included examination of all 106 Better Regions projects.' I understand that the ANAO

has acknowledged that project selection was not within the scope of the program administration.<sup>149</sup>

I would like to thank your officers for the professional manner in which they conducted the audit with the assistance of our Departmental officials and the time they have taken to meet with Departmental officials over the course of the audit.

Glenys Beauchamp  
Secretary

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<sup>149</sup> ANAO comment: As outlined in ANAO's Better Practice Guide on the administration of grant programs, and acknowledged in the Commonwealth Grant Guidelines, a measure of grant program outcomes that is frequently the subject of public and parliamentary scrutiny is the distribution of funding awarded under grants programs. Accordingly, and consistent with the practice adopted for many years in ANAO audits of grants programs that include projects that were the subject of an election commitment, this report:

- recognises that the projects are election commitments which were later allocated to be considered for funding under the Better Regions Program; and
- includes ANAO analysis of the distribution of funding by electorate demographic and electorate status at the time of the 2007 General election.

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Attorney-General's Department

Department of Families, Housing, Community Services and Indigenous Affairs

## **ANAO Audit Report No.2 2010–11**

*Conduct by Infrastructure Australia of the First National Infrastructure Audit and Development of the Infrastructure Priority List*

Infrastructure Australia

## **ANAO Audit Report No.3 2010–11**

*The Establishment, Implementation and Administration of the Strategic Projects Component of the Regional and Local Community Infrastructure Program*

Department of Infrastructure, Transport, Regional Development and Local Government

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30 June 2010*

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Department of Families, Housing, Community Services and Indigenous Affairs

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