

The Auditor-General
Audit Report No.42 2010–11
Performance Audit

**The Establishment, Implementation and
Administration of the Council Allocation
Component of the Regional and Local
Community Infrastructure Program**

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

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of Australia 2011

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Canberra ACT
18 May 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 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 Establishment, Implementation and Administration of the Council Allocation Component of the Regional and Local Community Infrastructure 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

AUDITING FOR AUSTRALIA

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Abbreviations/ Glossary

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	Commonwealth Grant Guidelines—Policies and Principles for Grants Administration, 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.
DITRDLG	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	Financial Management and Accountability Regulations 1997

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 grant as an arrangement for the provision of financial assistance by the Commonwealth:</p> <ul style="list-style-type: none"> a) under which public money is to be paid to a recipient other than the Commonwealth; and b) which is intended to assist the recipient achieve its goals; and c) which is intended to promote one or more of the Australian Government's policy objectives; and d) under which the recipient is required to act in accordance with any terms and conditions specified in the arrangement. <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 CGGs.</p>
Grants administration	<p>The CGGs stipulate that the grants administration function encompasses the whole process of granting activity and includes:</p> <ul style="list-style-type: none"> • planning and design; • selection and decision-making; • the making of a grant; • the management of funding agreements; • reporting; and • review and evaluation.

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"> 1. Robust planning and design. 2. An outcomes orientation. 3. Proportionality. 4. Collaboration and partnership. 5. Governance and accountability. 6. Probity and transparency. 7. Achieving value with public money.
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"> • 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 • 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.
Strategic Review	Strategic Review of the Administration of Australian Government Grant Programs, 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

Introduction

1. The Regional and Local Community Infrastructure Program (RLCIP) was an element of the various fiscal stimulus measures announced by the Australian Government in late 2008 and early 2009 in response to the onset of the global financial crisis. The RLCIP funding was made available to councils for additional ready-to-proceed community infrastructure projects and for additional stages of projects that were already underway. Funding of such projects was intended to support local jobs during the global financial crisis or during the recovery phase, and provide long-term benefits to communities by assisting councils to build and modernise local infrastructure.

2. There are two components to the RLCIP, intended to be complementary and to be delivered simultaneously for the economic stimulus to be fully effective. The two components comprised:

- \$670 million made available across two application rounds for a limited number of large strategic projects. Referred to as the Strategic Projects component, the first (\$550 million) application round was examined in ANAO Audit Report No.3 2010–11¹; and
- \$450 million made available across three rounds through a non-competitive, direct allocation shared amongst all local governments, with council allocations calculated on the basis of a formula.² This part of the RLCIP is referred to as the Council Allocation component, and is the subject of this audit report.

3. The three funding rounds under the Council Allocation component (see Table S 1) were announced at the inaugural, second and third meetings respectively of the Australian Council of Local Governments. A total of \$450 million was available across the three rounds, with some 6 000 projects

¹ 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.

² Each council was to receive a minimum payment (\$100 000 for the first round, and \$30 000 for each of Round 2 and Round 3) with the balance distributed on the basis of a methodology that used data collected by State and Territory local government grants commissions. The formula gave preference to those councils classified as in a 'growth' area as well as those councils with more than 5 000 residents.

approved for funding. The published program guidelines outlined six categories of community infrastructure projects on which funding could be used, with most of the approved projects put forward by councils in the areas of children, youth and seniors facilities (33 per cent) or access facilities (24 per cent).

Table S 1

Key milestones in the rounds of the Council Allocation component

Round	Round announced	Due date for project nominations	Deadline for councils to spend funding	Final report and acquittal due
Round 1: \$250 million	18 Nov 2008	30 Jan 2009	30 Sep 2009	30 Nov 2009
Round 2: \$100 million	25 June 2009	20 Nov 2009	31 Dec 2010	28 Feb 2011
Round 3: \$100 million	18 June 2010	30 July 2010, later extended to 29 Oct 2010	31 Dec 2011	1 Feb 2012

Source: ANAO analysis of departmental data.

4. 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 Department of Infrastructure, Transport, Regional Development and Local Government (DITRD LG, now the Department of Infrastructure and Transport). In this context, RA's responsibilities include the ongoing administration of both components of the RLCIP. Staff of the former Local Government and Regional Development Division of DITRD LG have transferred to the new department.

Audit objective

5. The objective of the audit was to assess whether the Council Allocation component of the RLCIP has been effectively designed, implemented and administered. The audit examined each of the three funding rounds, albeit with a focus on the first round (as it was due to be completed by 30 September 2009), with the second round not due to be completed until late in the audit

timetable (31 December 2010) and third round funding agreements being signed and payments being made at the time audit work was completed.

Overall conclusion

6. The first round of the Council Allocation component of the RLCIP was implemented in the context of the global financial crisis and was part of the Government's fiscal response to the emerging crisis. The later two rounds have been described as part of the Government's broad stimulus package³ with their focus on supporting local jobs during the crisis as well as during the economic recovery. Together with the related Strategic Projects component, more than \$1.1 billion has been made available to local government for local community infrastructure projects, with the objectives of providing economic stimulus or supporting economic recovery, creating jobs and assisting councils to address the backlog in community infrastructure work.

7. The program was appropriately designed, and endorsed by government, to distribute funds across the nation. Funding allocations were set by a formula that was similar to that used in the long running Roads to Recovery Program. The formula did not give any priority to particular geographic areas. Rather, it gave a preference to those councils in a growth area as well as those with larger numbers of residents.

8. Implementation of the program has proceeded, with more than 6 000 projects approved for funding across the three rounds of the Council Allocation component. Each council was able to identify its own project priorities, so long as the project represented additional work, was 'ready to proceed' and was in an eligible asset category. By the middle of March 2011, more than 71 per cent of projects had been completed, with a further 6 per cent of projects having been reported by councils as underway. The rate of project delivery has been slower than anticipated, but progress is largely in the hands of councils once projects have been approved by the department, and a funding agreement signed.

9. Consistent with the intention of providing timely economic stimulus by funding new construction work and major renovations or refurbishments, the program administrative arrangements were designed to be simple. In addition,

³ The Hon. Simon Crean MP, Minister for Regional Australia, Regional Development and Local Government, *\$100 million boost for community infrastructure*, Media Release, 7 December 2010.

considerable effort was exerted by the department to obtain eligible project nominations from councils by the relevant application closing dates, and to assess and approve project applications in a timely manner so that a funding agreement could be signed and funds paid as soon as possible. Further, particularly in respect to the first two rounds, the department developed effective processes for monitoring council progress with the delivery of approved projects. For the third round, councils were not asked to provide a forecast expenditure profile for the nominated projects as part of the application. This meant that, unlike the first two rounds, a baseline was not established at the time each project was nominated and approved for funding.

10. The establishment of the Council Allocation component, in the context of the emerging financial crisis and the need for a timely government response, meant that significant reliance was necessarily placed in the first round on the ability of councils to identify community infrastructure projects that could provide the desired economic stimulus, and to then deliver these projects in a timely manner. By the time the second round of funding was announced, the department had started to become aware that projects were not proceeding as quickly as councils had forecast in their funding applications, and spending by councils was well below the level envisaged. However, it was not until the latter part of 2009 that the full extent of delays in construction work (and associated stimulus spending by councils) became clear.

11. The experience of project delays and slower than expected expenditure was, in large part, repeated in the second funding round. In addition, there were considerable delays with councils being able to identify and put forward eligible project nominations for the third funding round, even after the application closing date was extended by some two months. However, the need for, the allocation approach, and the optimal timeframe in respect to, a further \$100 million of economic stimulus through a third funding round was not addressed by the department in its advice to the incoming government. As many councils had not commenced construction on their Round 3 projects or had experienced delays in construction (in some cases due to recent flooding), the department deferred the first progress report in respect to Round 3 for a month (from 1 March 2011 to 1 April 2011). When received, these progress reports confirmed delays with Round 3 projects commencing construction as well as delays in funds paid to councils being spent.

12. Given the history of delays with councils delivering projects funded under the Council Allocation component, ANAO has recommended that:

- the monitoring of approved grants be improved by the department being more consistent in requiring grant applications to include a profile of planned expenditure, and revised expenditure profiles in progress reports, to promote informed monitoring of the timeliness of performance by funding recipients in spending grant funds; and
- that the department regularly evaluate the need for, and the optimal timeframe of, subsequent rounds having regard to any delays with the commencement and completion of projects funded in earlier rounds. For example, this will be important in the administration of the various rounds of the Regional Development Australia Fund.⁴

Key findings

Application assessment practices

13. The Council Allocation component was similar to a demand-driven grants program under which applications that satisfy stated eligibility criteria receive funding, up to the limit of available appropriations and subject to revision, suspension or abolition of the program.⁵ In such programs, eligibility criteria applied are of particular importance. Accordingly, the focus of the department's assessment activities was on being satisfied that applications were complete and complied with the published program guidelines and guidance provided to councils in a Frequently Asked Questions document.⁶

14. Councils that lodged incomplete applications or proposed to spend their allocation on work that was not eligible for funding (as defined by the published program guidelines) were asked to amend and resubmit a complete

⁴ A total of more than \$1 billion is to be available under the Fund over five years, commencing in 2011–12. Applications for the first \$100 million round close in May 2011, and the second round is expected to take place in late 2011. In relation to the timely commencement and completion of projects, the recently released guidelines for the Fund outline that:

- applications will be assessed, in part, on the demonstrated capacity of the proponent to deliver the project on time, within budget and according to the agreed outcomes; and
- funding should only be requested for projects that are 'investment ready' which is defined as being ready to proceed, including to commence construction within six months of signing the funding agreement, with all planning, rezoning, environmental and/or native title approvals in place.

⁵ ANAO Better Practice Guide, *Implementing Better Practice Grants Administration*, Canberra, June 2010, p. 44.

⁶ As the Council Allocation component did not involve competitive funding rounds, the department did not need to prioritise (or rank) competing, eligible applications in terms of the available funding.

and compliant application. In the context of an economic stimulus grants program where each council was provided with an allocation rather than competing to be awarded a grant, providing councils with some further opportunity to submit complete and compliant applications was appropriate.

15. A similar methodology was employed for the receipt of applications for each round, modified to reflect the differences in the various program guidelines. In addition, starting with the second round, the department enhanced its assessment practices to explicitly examine (for a risk-based sample of projects) whether the budgets submitted by councils represented a fair and reasonable estimate of likely costs, thereby providing greater assurance that the projects nominated by councils represented value for money.

Timeliness of departmental processes

16. In order to achieve the desired economic stimulus outcomes from the program, considerable effort was exerted by the department to assess and approve project applications from councils in a timely fashion, and then develop and sign funding agreements so that payments could be made to councils. These efforts were successful in respect to the first funding round, with an average of 51 days being taken to complete the assessment process, approve projects, and develop and sign a funding agreement with each council. As a result, all funding was paid to councils between late February and late May 2009 (for applications that closed at the end of January 2009).

17. Considerably longer time (123 days on average) was taken in the second round to assess and approve projects, and develop and sign funding agreements. In part, this reflected the additional project information requested from councils in their application as the department sought to be better informed about how councils intended to use their allocated funding. As a result of the delays, the majority of funding was not paid to councils until between 30 March 2010 and 30 June 2010, between four and a half and seven and a half months after applications were due to have been received (on 20 November 2009).

18. In respect to the third round, a number of planned assessment processes were either abandoned before they had been applied to all applications or not employed. The department viewed this as necessary and appropriate (on a risk-basis) given the delays that had already occurred with

receiving and assessing applications, and the target of having all project nominations approved by 30 September 2010.⁷

19. As at mid-February 2011 (when ANAO audit fieldwork was completed), 497 funding agreements for the third round had been signed, but 68 funding agreements (12 per cent) had not yet been completed and signed. In addition, notwithstanding the steps taken to truncate the assessment process, for those councils with a funding agreement signed, the time taken in Round 3 to reach this milestone has been, on average, 127 days (significantly longer than Round 1, and slightly longer than Round 2). The majority of the delay occurred in having funding agreements developed and signed with councils. As a result, as at mid-February 2011, only \$50.5 million of the \$100 million in Round 3 funding had been paid to councils. By mid-April 2011, \$64.12 million had been paid to 557 councils in relation to 1 353 projects included in executed funding agreements.

Departmental arrangements to monitor construction activity and the spending of stimulus funding

20. Consistent with the economic stimulus nature of the Council Allocation component, the program guidelines for each round provided clear deadlines of when funding was to have been expended on approved projects (see Table S 1 on page 14). In addition, for the first two funding rounds, the program governance arrangements indicated that the department was interested in tracking expenditure by obtaining from councils with their application a forecast spending profile for each project and then requiring regular progress reports on actual expenditure (together with an updated forecast) as well as a final acquittal report at the completion of the project. By way of comparison, Round 3 applications were not required to include a forecast expenditure profile, and the progress report requirements were not finalised until March 2011.

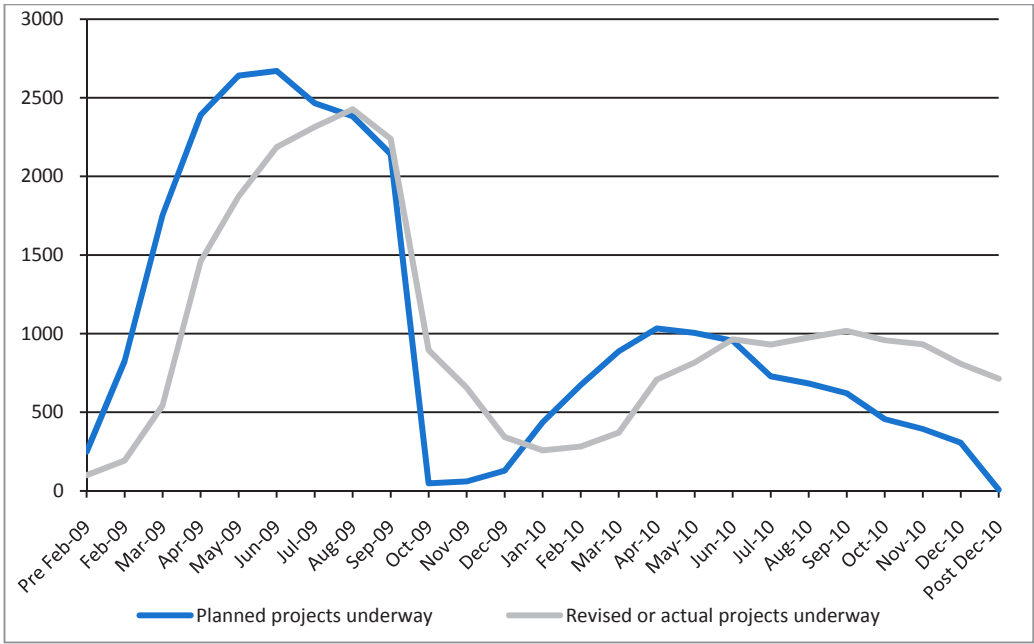
21. The progress reporting arrangements for the first two rounds have provided useful information for the department to monitor the performance of councils in using the funding as an economic stimulus measure. In particular, whilst a key parameter in the design of the RLCIP related to funding ready to proceed ('shovel ready') projects, there have been significant delays in projects

⁷ This target date was subsequently changed to having assessments completed by 31 October 2010.

commencing compared with council forecasts provided as part of their applications for funding. Some of the delays with projects commencing have been recaptured through work being completed more quickly but, overall, construction activity funded through the Council Allocation component has taken place later than was forecast by councils in their application for funding (see Figure S 1).

Figure S 1

Round 1 and Round 2 projects construction activity by month



Source: ANAO analysis of RA data.

Council expenditure of program funds

22. As outlined in ANAO’s audits of other economic stimulus programs involving the funding of infrastructure construction projects⁸, the typical situation found in respect to construction projects is that expenditure follows an S-curve, usually with a slow start but reaching a peak by the 50 per cent to 75 per cent complete construction milestones before flattening out towards the

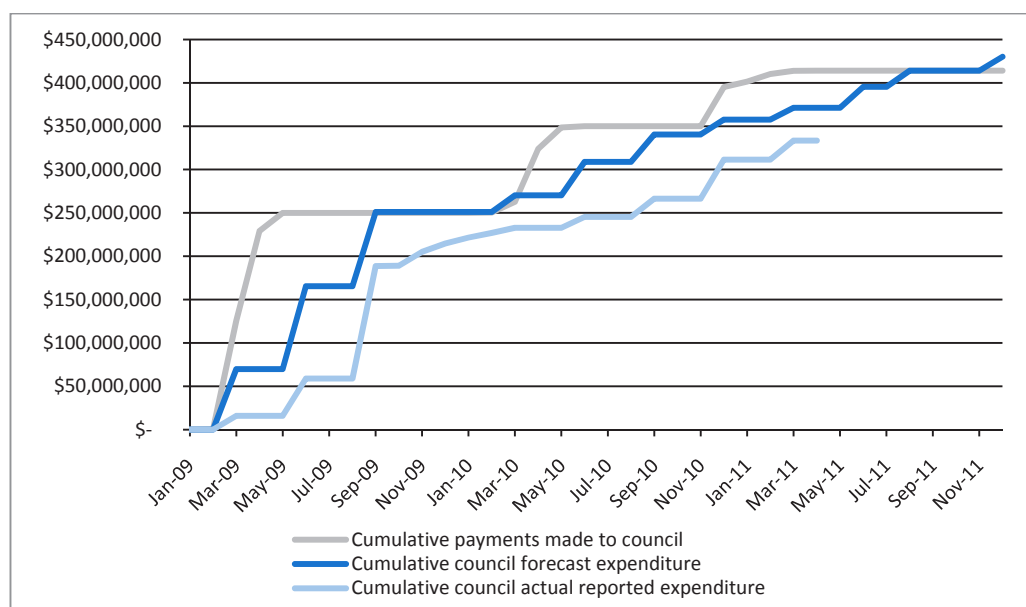
⁸ ANAO Audit Report No.3 2010–11, *The Establishment, Implementation and Administration of the Strategic Projects Component of the Regional and Local Community Infrastructure Program*, Canberra, 27 July 2010, pp. 221 to 222 and ANAO Audit Report No.33, 2009–10, *Building the Education Revolution—Primary Schools for the 21st Century*, Canberra, 5 May 2010, p.157.

end of the project. This situation was reflected in the Council Allocation component, where the delays in construction activity occurring have led to a significant consequential lag in the funds paid to councils being spent. In particular, and as illustrated by Figure S 2:

- the \$250 million in Round 1 funding was required to have been spent by 30 September 2009 but, by this date, nearly one quarter of the funds paid to councils remained unspent. It took a further nine months (to June 2010) for the expenditure of program funding to reach \$250 million and, of this amount, \$7.8 million related to expenditure on Round 2 projects due to continuing delays with a small number of Round 1 projects;
- the \$100 million in Round 2 funding was required to have been spent by 31 December 2010 but for a significant number of projects, this milestone was not met; and
- as at mid-April 2011, more than 26 per cent of Round 3 projects had been reported as having not yet started, with less than \$14 million of the Round 3 \$100 million allocation having been reported as spent.

Figure S 2

Delivery of economic stimulus: Rounds 1, 2 and 3



Source: ANAO analysis of RA data. Note: The chart includes Round 3 forecast expenditure from progress reports (for the full project amount as reported) but at the time of reporting there was no forecast payment data for outstanding payments to councils (amounting to some \$35.9 million). Accordingly, the chart only includes the amounts paid to councils to date.

23. Similar to the Roads to Recovery Program on which the program's design was based, the Council Allocation component gave councils considerable autonomy in the selection and delivery of works. Also, given the urgency attached to the first funding round, the department necessarily placed considerable reliance on the accuracy of council timelines and expenditure forecasts included in the approved applications. However, the department could reasonably have been expected to have applied considerably greater scrutiny to the practical achievability of project timeframes and expenditure forecasts put forward by councils in the second and third rounds of this economic stimulus program given:

- the nature of the projects being nominated for funding;
- typical construction economics; and
- the experience of the significant body of projects the department was already managing in respect to each council through Round 1 as well as other programs.

24. In these circumstances, and as outlined in ANAO's Administration of Grants Better Practice Guide⁹, there would have been benefit in the department examining whether:

- the funds allocated to councils that had not submitted applications for eligible projects by the closing date should be considered for return to the Budget as a savings measure, or redistributed to other councils;
- the allocation approach required adjustment from the existing approach of giving preference to councils with larger populations and those councils classified as being in a 'growth' area; and
- expanding the types of projects eligible for funding would have assisted councils to identify ready to proceed projects that could be nominated for funding.

⁹ ANAO Better Practice Guide, *Implementing Better Practice Grants Administration*, Canberra, June 2010, p. 64

Summary of agency response

25. A copy of the proposed report was provided to RA and the Department of Infrastructure and Transport. The Department of Infrastructure and Transport did not have any comments. Summary comments made by RA on the proposed report are reproduced below, with the full response included in Appendix 1:

The department notes the acknowledgment by the ANAO that the program was appropriately designed, and endorsed by government, to distribute funds across the nation. The department acknowledges further refinements to the monitoring processes and subsequent advice to the Minister will improve our current grants administration practice.

Recommendations

Recommendation No.1

Paragraph 3.26

To improve the monitoring of performance by funding recipients, ANAO recommends that the Department of Regional Australia, Regional Development and Local Government require grant applications to include a profile of planned expenditure, and progress reports to include revised expenditure profiles.

RA response: Agreed.

Recommendation No.2

Paragraph 3.53

To promote the timely and effective delivery of community infrastructure programs, ANAO recommends that the Department of Regional Australia, Regional Development and Local Government regularly evaluate the need for, and the optimal timeframe of, subsequent rounds having regard to any delays with the commencement and completion of projects funded in earlier rounds.

RA response: Agreed.

Audit Findings and Conclusions

1. Introduction

This chapter makes reference to the global financial crisis, introduces the Council Allocation component of the Regional and Local Community Infrastructure Program and sets out the audit objectives and scope.

Background

1.1 The onset of the global financial crisis in 2008 caused a severe loss of confidence, not only in the financial sector, but also in households and businesses around the world. The result was a period of global economic downturn and a prospect of rising unemployment in many countries.

1.2 In response, many governments around the world adopted fiscal measures to support employment and economic recovery. There has also been coordinated international action through the Group of Twenty (G-20) countries, of which Australia is a member, to provide liquidity, address regulatory deficiencies, unfreeze credit markets and ensure that international financial institutions are able to provide support for the global economy.¹⁰

1.3 Domestically, the Australian Government prepared and announced a series of stimulus measures in late 2008 and early 2009. They included the:

- Economic Security Strategy (announced on 14 October 2008);
- Council of Australian Governments (COAG) Funding Package (announced on 29 November 2008);
- Nation Building Package (announced 12 December 2008);
- Nation Building and Jobs Plan (announced 3 February 2009);
- Jobs, Training and Youth Transitions Package (announced 30 April 2009); and
- Nation Building Infrastructure Measures (announced May 2009).

1.4 These packages were aimed at delivering a broad range of short, medium and long-term stimulatory measures. The criteria adopted by the Government for the design of the stimulus packages was that they be timely,

¹⁰ On 15 November 2008, the leaders of G-20 countries attended the *Summit on Financial Markets and the World Economy* to determine appropriate, coordinated action to restore global growth and achieve necessary reforms in the world's financial systems. Subsequent G-20 Leaders' Summits on the global financial crisis were held in London, in early April 2009, and Pittsburgh, in late September 2009.

targeted and temporary.¹¹ The first phase of fiscal measures was designed to provide immediate support to growth—largely through transfer payments to cash constrained households. Subsequent measures were largely investment-related, most notably infrastructure investment.¹² The Government's cumulative fiscal stimulus measures were designed to ameliorate the adverse effects on the Australian economy from the global financial crisis, particularly on unemployment.¹³

1.5 To date, the ANAO has completed four performance audits of Government programs that were established in response to, or heavily influenced by, the global financial crisis.¹⁴ This report is the fifth ANAO audit examining issues associated with the design, implementation and/or administration of specific Australian Governments economic stimulus and recovery initiatives, and further audits are underway.

The Regional and Local Community Infrastructure Program

1.6 There have been three funding rounds under the Council Allocation component of the Regional and Local Community Infrastructure Program (RLCIP) as illustrated in Figure 1.1. On 7 December 2010, the Minister for Regional Australia, Regional Development and Local Government described the three rounds as being 'part of the Government's broad stimulus package'.¹⁵ The objectives of each round have been described as follows:

¹¹ House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government, *The Global Financial Crisis and Regional Australia*, November 2009, p. 55.

¹² Henry, K., *The Global Financial Crisis and the Road to Recovery*, Speech to the Australian Institute of Company Directors on 23 September 2009, available from <treasury.gov.au> [accessed 17 November 2009].

¹³ Commonwealth of Australia, 2009, *Commonwealth Coordinator-General's Progress Report: 3 February 2009–30 June 2009*, Canberra, p. 24, available from <economicstimulusplan.gov.au> [accessed 17 November 2009].

¹⁴ The previous four ANAO audits are: *Representations to the Department of the Treasury in Relation to Motor Dealer Financing Assistance* (No.1 2009–10); *Building the Education Revolution – Primary Schools for the 21st Century* (No.33 2009–10); *The Establishment, Implementation and Administration of the Strategic Projects Component of the Regional and Local Community Infrastructure Program* (No.3 2010–11); and the *Home Insulation Program* (No.12 2010–11).

¹⁵ The Hon. Simon Crean MP, Minister for Regional Australia, Regional Development and Local Government, *\$100 million boost for community infrastructure*, Media Release, 7 December 2010.

- the first round funding of \$250 million was to ‘stimulate additional growth and economic activity’¹⁶;
- Round 2 funding of \$100 million was intended to ‘support local jobs during the global economic recession and provide long-term benefits to communities by assisting councils to build and modernise local infrastructure’¹⁷; and
- the third round of \$100 million was ‘aimed at strengthening our communities during the economic recovery by supporting local jobs and provide long-term benefits to communities by renewing and upgrading local infrastructure’.¹⁸

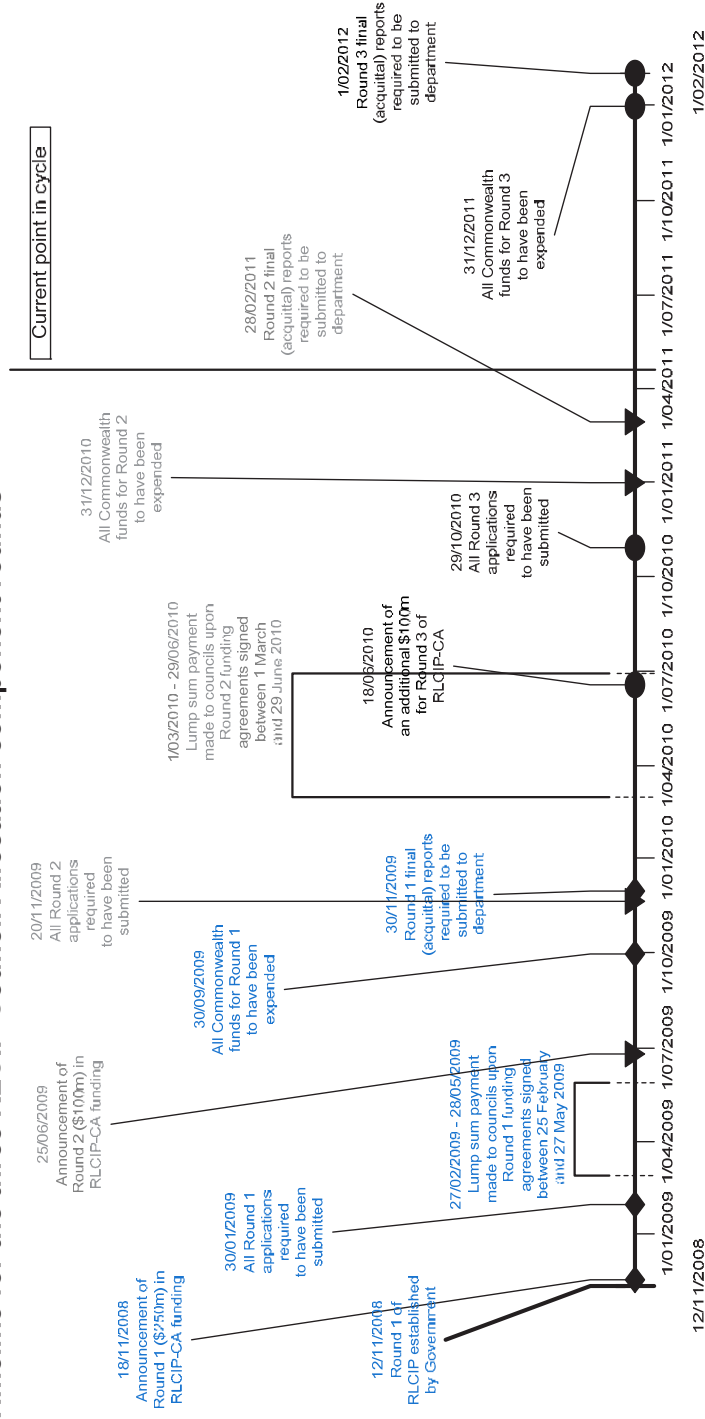
¹⁶ <http://www.regional.gov.au/local/files/250M_Guidelines_16Dec2008.pdf> [accessed 14 March 2011].

¹⁷ <http://www.regional.gov.au/local/cip/files/RLCIP100m_Guidelines_9oct09.pdf> [accessed 14 March 2011].

¹⁸ <<http://www.regional.gov.au/local/cip/cip100.aspx>> [accessed 14 March 2011].

Figure 1.1

Timeline for the three RLCIP-Council Allocation component rounds



Source: ANAO analysis of RA and public records.

Initial round

1.7 On 12 November 2008, the Government agreed to establish a \$300 million RLCIP, and also approved the proposed grant guidelines that outlined the way in which the funding could be accessed. This decision was taken on the basis of proposals to establish two separate ‘funds’ involving:

- \$250 million paid to all councils with the funds allocated by a formula (known as the Council Allocation component); and
- \$50 million¹⁹ for a Strategic Projects Infrastructure Fund designed to finance high priority infrastructure projects with a value of greater than \$2 million (known as the Strategic Projects component).

1.8 The advice to the Government recognised that, ideally, these options would have been funded over a number of years but, in light of the economic circumstances and the proposed fiscal response, they had been structured as 2008–09 one-off expenditure proposals. It was further recognised that, in order to achieve an underlying cash impact in 2008–09 only, substantial prepayments of grants (ahead of standard funding milestones) would be required. In respect to the proposed \$250 million Council Allocation component, the advice to Government noted that a grants pool of \$250 million balanced the desire to provide a meaningful value for each council, while acknowledging the risk that as the grant amount increases, so do the risks of underspends, displacement of existing activity and poorly planned projects.

1.9 On 18 November 2008, the \$300 million RLCIP was announced by the then Prime Minister at the Australian Council of Local Government’s inaugural meeting.²⁰ In a joint media release, the then Prime Minister and the then Minister for Infrastructure, Transport, Regional Development and Local Government²¹, stated that:

¹⁹ On 13 February 2009, the Government announced an additional \$500 million being allocated to the Strategic Projects component, bringing the total available funding to \$550 million. The Strategic Projects component of the RLCIP was subject to a separate performance audit completed in July 2010 (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).

²⁰ Government Response to the House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government, *Interim and Final Reports of Inquiry into Funding Regional and Local Community Infrastructure*, p. 3.

²¹ Now the Minister for Infrastructure and Transport.

The Rudd Labor Government today announced a \$300 million program to build local community infrastructure in all of Australia's 565 local council areas. This \$300 million Regional and Local Community Infrastructure Program (RLCIP) will boost local economic development and support jobs in communities around the country. Today's announcement is further decisive action from the Rudd Government to stimulate the Australian economy during a severe global financial crisis. The program is also an initial down-payment on the Government's plans to meet urgent needs in communities and create long-term infrastructure. Funding will be delivered under the program by 30 June 2009 to ensure the stimulatory effects of this package are delivered to local economies as quickly as possible.

The Government made the formal announcement at the inaugural meeting of the Australian Council of Local Government—a direct partnership between local and federal governments to undertake nation-building. Today's infrastructure program will target projects that can be delivered promptly, providing an immediate boost to local and regional economies.²²

1.10 The \$300 million RLCIP was later described as being the third phase of the Government's Economic Security Strategy, announced in October 2008.²³

Round 1—Council Allocation component

1.11 In announcing the RLCIP, the Government stated that the one-off \$250 million Council Allocation component would be allocated to councils and shires for additional ready to proceed local community infrastructure projects, and for additional stages of projects already underway. Each council was to receive a minimum payment of \$100 000 with the balance to be distributed on the basis of a methodology which included relative need, population and growth.²⁴ This methodology was based on data collected by State and Territory local government grants commissions.

²² The Hon Kevin Rudd MP, Prime Minister and The Hon Anthony Albanese MP, Minister for Infrastructure, Transport, Regional Development and Local Government, *Local Communities to Receive \$300 million for Regional and Local Infrastructure*, Joint Media Release, AA176/2008, 18 November 2008.

²³ *Nation Building: Road, Rail, Education & Research and Business*, Statement by The Honourable Kevin Rudd MP, Prime Minister and The Honourable Julia Gillard MP, Deputy Prime Minister and Minister for Education, Employment, Workplace Relations and Social Inclusion and The Honourable Wayne Swan MP, Treasurer and The Honourable Anthony Albanese MP, Minister for Infrastructure, Transport, Regional Development and Local Government, December 2008, p. 2.

²⁴ The Australian Capital Territory (ACT) also received a \$2 million allocation under this component of the RLCIP. The amount for the ACT was not based on the formula approach. See further at paragraphs 2.33 to 2.38.

1.12 In order to claim their allocations, councils (and the ACT) were required to submit proposals to the Department of Infrastructure, Transport, Regional Development and Local Government (DITRD LG)²⁵ that met the Council Allocation component program guidelines (separate guidelines were published for the Council Allocation and Strategic Projects components). Once the submitted projects were approved by the department, 100 per cent of the funding allocation was paid upon signing a funding agreement.

1.13 Reflecting the importance of timely economic stimulus, all details of projects to be funded by the Council Allocation component were to be submitted by 30 January 2009; funding agreements were required to be entered into prior to payment; progress projects were to be submitted by councils to the department by 30 May 2009²⁶; all Commonwealth funds were required to be spent by 30 September 2009; and a final report on how each funding recipient had spent the money was due to the department by 30 November 2009.

Round 2—two components

1.14 At the second Australian Council of Local Government meeting held on 25 June 2009, the then Prime Minister announced additional funding of \$220 million for the RLCIP. This additional funding was, once again, split between the two components, namely:

- \$120 million for the Strategic Projects component; and
- \$100 million for the Council Allocation component.

1.15 The program guidelines for the additional funding explained that:

This investment is intended to support local jobs during the global economic recession and provide long-term benefits to communities by assisting councils to build and modernise local infrastructure.

²⁵ 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 DITRD LG (now the Department of Infrastructure and Transport). In this context, RA's responsibilities include the ongoing administration of both components of the RLCIP, with staff of the former Local Government and Regional Development Division of DITRD LG having been transferred into the new department.

²⁶ The department later decided a further progress report (due 31 July 2009) was required in recognition of the risk that project monitoring was diminished with only one report contracted.

1.16 Similar to Round 1, the \$100 million allocated to the Council Allocation component was to be distributed using the formula-based approach. In this instance, each council received a minimum payment of \$30 000.

Round 3—Council Allocation component only

1.17 At the third meeting of the Australian Council of Local Government held on 18 June 2010, the then Prime Minister announced further additional funding of \$100 million for the allocated component of the RLCIP. The allocation of funding was to be consistent with the funding model used for Round 2.

1.18 The additional \$100 million funding was provided in order to assist councils to build and modernise community facilities, including town halls, libraries, community centres, sports grounds and environmental infrastructure. Further, it was to be aimed at strengthening communities during the economic recovery by supporting local jobs and providing long-term benefits to communities by renewing and upgrading local infrastructure.²⁷

1.19 On 7 December 2010, the Minister for Regional Australia, Regional Development and Local Government announced the final tranche of payments to local government. Specifically, the Minister stated:

This has been an important part of our stimulus mechanism and designed to get money into shovel-ready projects that councils undertake. We have invested through this program alone, \$1.1 billion and this \$100 million is the final commitment; the announcements if you like, from the final commitment.

We always intended to phase out the program, hence the \$100 million residual. But these are initiatives that provide for a whole range of initiatives around the country, better local libraries, playgrounds, halls, swimming pools, and other facilities.²⁸

²⁷ <<http://www.regional.gov.au/local/cip/cip100.aspx>> [accessed 14 March 2011].

²⁸ The Hon. Simon Crean MP, Minister for Regional Australia, Regional Development and Local Government, *Transcript of doorstep at Parliament to announce \$100 million for community infrastructure – with Dr Andrew Leigh MP*, Transcript, SCT036/2010, 7 December 2010.

Audit objective and scope

1.20 The objective of the audit was to assess whether the Council Allocation component of the RLCIP has been effectively designed, implemented and administered. The audit was undertaken under section 18 of the *Auditor-General Act 1997*.

1.21 The audit examined each of the three funding rounds, albeit with a focus on the first round (as it was due to be completed by 30 September 2009), with the second round not due to be completed until late in the audit timetable (31 December 2010) and third round funding agreements being signed and payments being made at the time audit work was completed.

1.22 The audit examined the procedures for nomination, assessment and approval of projects through to the delivery of works. It also examined the mechanisms in place to measure and/or assess the quality of program delivery and achievement of the stated program objectives. In addition, a number of site visits were undertaken in respect to a sample of Round 1, and to a lesser extent Round 2, projects.

1.23 The audit was conducted in accordance with ANAO auditing standards at a cost to the ANAO of \$425 000.

2. Funding allocations and project application and approval

This chapter analyses the evolving program design and governance framework for each round of the Council Allocation component of the RLCIP, and the associated reporting arrangements for funding recipients.

Introduction

2.1 In the May 2008 Budget, the Government announced that it would establish a new Regional and Local Community Infrastructure Program (RLCIP) from 2009–10.²⁹ Subsequently, the House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government (the House Standing Committee) commenced an investigation into options for the new funding program. However, the Government decided to accelerate its nation building agenda in response to the global financial crisis.³⁰

2.2 As part of the development of the new program, the delivery methodology of both the National Black Spot Program and the Roads to Recovery Program were considered by the department in advising the Government on the design of the Council Allocation component.³¹ By way of comparison:

- under the Roads to Recovery Program, each council receives an allocation of funding (arrived at through a formula) and councils were given the freedom to use their allocated funds as they wished, as long

²⁹ *Strengthening Rural and Regional Australia*, Statement by The Honourable Anthony Albanese MP, Minister for Infrastructure, Transport, Regional Development and Local Government and The Honourable Tony Burke MP, Minister for Agriculture, Fisheries and Forestry and The Honourable Gary Gray MP, Parliamentary Secretary for Regional Development and Northern Australia, 13 May 2008, p. 2.

³⁰ In this respect, the House Standing Committee tabled an Interim Report on its inquiry into a new regional development funding program on 5 November 2008. (See House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government, *Funding regional and local community infrastructure: Proposals for the new Regional and Local Community Infrastructure Program*, Interim Report, November 2008.)

³¹ The Roads to Recovery Program has been subject to two recent ANAO performance audits. See ANAO Audit Report No.31 2005–06, *Roads to Recovery*, Canberra, 1 March 2006; and ANAO Audit Report No.31 2009–10, *Management of the AusLink Roads to Recovery Program*, Canberra, 22 April 2010. The administration of the National Black Spot Program was examined in ANAO Audit Report No.45 2006–07, *The National Black Spot Program*, Canberra, 19 June 2007.

as it was for expenditure on roads (as defined by the legislation);
whereas

- administration and delivery of the National Black Spot Program depends, to a significant extent, on State road transport authorities. Both States and councils can nominate projects for National Black Spot Program funding³², with the States playing a key role in assessing project eligibility and in working with State Consultative Panels to rank eligible applications and make funding recommendations to the Australian Government.

2.3 As it eventuated, the approach adopted for the Council Allocation component was based on that used for the Roads to Recovery Program.

2.4 The initial Roads to Recovery Program was established by the *Roads to Recovery Act 2000*. The legislation provided \$1.2 billion to be provided over four years. The program commenced in early 2001 as a single intervention to address the concern that local government road investment was near the end of its economic life and its replacement was beyond the capacity of local government. Subsequent extensions of the program have been approved by governments through various pieces of legislation. Currently, the fourth program is approved to continue through to 30 June 2014. In total, over 13 years, some \$4.18 billion is to be paid to local government for expenditure on the construction and maintenance of roads.³³

2.5 The Roads to Recovery Program operates uniformly across Australia. In each 'round' of the Roads to Recovery Program, the distribution of funding to each State is determined by Ministerial discretion. In arriving at the actual distribution, consideration was given to the historical results from using the Financial Assistance Grants (FAGs) identified for local roads; and population and length of road under the control of the local government, with each of these two statistics weighted equally.³⁴ In turn, the allocation within each State

³² While projects are delivered by both state and local government, payments to councils for approved projects are made through the relevant State road transport authority and it is the responsibility of the State road transport authorities to report to the Commonwealth on the physical delivery of all projects being delivered within the State.

³³ ANAO Audit Report No.31 2009–10, *Management of the AusLink Roads to Recovery Program*, Canberra, 22 April 2010, pp. 13–14.

³⁴ Consideration was also given to the long standing concern of South Australia that it received a disproportionately low level of funding under the FAGs identified for local roads.

was determined using the formula applied by State Grants Commissions for FAGs identified for local roads.

2.6 The Roads to Recovery Program operates under simple administrative procedures whereby spending decisions are made by council and reported to the Australian Government. Money is paid directly by the Australian Government to each council. Much of the administration of the Program is undertaken via the internet.³⁵

2.7 In order to assist in addressing the maintenance backlog, one of the key elements of the Roads to Recovery Program was funding recipients maintaining their own source expenditure, rather than substituting Commonwealth funding for their own, in constructing, upgrading and maintaining roads. The program funding conditions required each council to maintain the level of roads expenditure which it funded otherwise than under that Program, and provide a statement to the department that it had done so as part of the annual reporting requirements.

2.8 Similar to the Roads to Recovery Program, one of the intentions of the RLCIP was to assist councils address the maintenance backlog in community infrastructure.³⁶ Accordingly, the program guidelines for each round of the Council Allocation component of the RLCIP explicitly stated that eligible projects must be additional works. Subsequently, in March 2011 the department advised ANAO that works being additional was a requirement of funding that was considered before the department proceeded to the funding agreement stage. However, compared with the Roads to Recovery Program, the program guidelines and subsequent funding agreements executed between the Commonwealth and councils did not include a complementary requirement that own source expenditure on community infrastructure needed to be maintained, nor the requirement to report to the department that this had been achieved.

2.9 Rather than program specific legislation as has been used for the Roads to Recovery Program, the Council Allocation component of the RLCIP was

³⁵ See <http://www.nationbuildingprogram.gov.au/funding/r2r/r2r_funding_conditions.aspx/> [accessed 18 January 2011].

³⁶ For example, in his correspondence to councils advising them of their Round 1 allocation, the then Minister for Infrastructure, Transport, Regional Development and Local Government stated that: 'The Rudd Government is delivering funding through the RLCIP to also begin addressing the substantial backlog in local infrastructure and help improve the quality of life in local communities.'

established as an administrative (executive) scheme³⁷ based on a series of funding agreements. This reflected the importance of the Council Allocation component providing timely economic stimulus. However, the formula based funding allocation across all councils and other key aspects of the program's governance arrangements are similar to the Roads to Recovery Program.

Program guidelines

2.10 As noted in ANAO's Administration of Grants Better Practice Guide:

The specific guidelines that are established for a particular grant-giving activity provide a starting point for parties considering whether to participate in the program. Accordingly, the guidelines are central to implementing an effective program that complies with the grants policy framework. In particular, program guidelines identify how: potential funding recipients will be able to access the program; successful applicants will be determined; and approved grants will be administered in order to achieve the stated program objectives, including the obligations that funding recipients will be required to satisfy.³⁸

2.11 Since December 2007, the development, approval (by the Expenditure Review Committee of Cabinet) and publication of program guidelines has been a key aspect of the enhanced grants administration framework.³⁹

³⁷ Legal advice obtained by the department in October 2008 explained that one benefit of an administrative scheme was that it may be more time and resource friendly compared to a legislative scheme which would require a bill to compete with other bills to be drafted and also to be debated and passed by Parliament. Accordingly, as the program was established in order to fulfil the Government policy objective to provide an economic stimulus program what would buffer the effects of the global economic downturn being experienced at that time, program-specific legislation was not pursued. The legal advice also noted that, while all funding requires an appropriation through legislation, operational arrangements could be made by way of an administrative scheme.

³⁸ ANAO Better Practice Guide, *Implementing Better Practice Grants Administration*, Canberra, June 2010, p. 53.

³⁹ At the time the Council Allocation component was introduced, the applicable requirement was specified in the Finance Minister's Instructions of 14 December 2007 which required that: 'Guidelines for any new discretionary grants programs must be considered by the Expenditure Review Committee.' 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.

Round 1—\$250 million allocation

2.12 The program guidelines for the first round were approved by Cabinet on 12 November 2008. The approved guidelines:

- provided an overview of the program;
- included advice on what the funding could be spent on, and on what activities funding could not be used for. The guidelines also included an annexure setting out examples of eligible activities;
- explained how each council could access the funding, including that all funding must be expended by 30 September 2009; and
- set out the reporting requirements associated with receiving the funding.

2.13 On 21 November 2008, the then Minister for Infrastructure, Transport, Regional Development and Local Government announced the release of guidelines for the \$300 million RLCIP (comprising \$250 million for the Council Allocation component and \$50 million for the Strategic Projects component—later increased to \$550 million).⁴⁰ Also on 21 November 2008, the department emailed each Mayor/Shire President advising of the then Prime Minister’s announcement of the program on 18 November 2008. In relation to the \$250 million Council Allocation component, councils⁴¹ were advised, amongst other things, that:

- the funding of \$250 million in 2008–09 would be distributed to all local councils and shires on the basis of a methodology that included relative need, population and growth;
- funding would be available for additional and ready-to-proceed community infrastructure;
- the amount of funding allocated to each council could be found on the department’s website;

⁴⁰ The Hon Anthony Albanese MP, Minister for Infrastructure, Transport, Regional Development and Local Government, *Guidelines released for the \$300 million Regional and Local Community Infrastructure Program*, Media Release, AA180/2008, 21 November 2008.

⁴¹ In March 2011, the department commented to ANAO that the Australian Capital Territory (ACT) was not mentioned in the Round 1 guidelines as it is not specifically a Shire or a Council.

- each council would be required to enter into an agreement with the Commonwealth by 30 January 2009 to receive the payment and that funding must be expended by 30 September 2009; and
- program guidelines were also available on the department's website.

2.14 The program guidelines published on the departmental website differed in a number of respects to those approved by Cabinet. Departmental records state that these changes had been made at the request of the then Minister for Infrastructure, Transport, Regional Development and Local Government. The guidelines released on the department's website on 21 November 2008 had been revised to:

- increase emphasis that funds were available for additional projects or additional stages of projects rather than being available for priority or scheduled projects that could be bought forward;
- state that 'projects that can be funded need to be consistent with the attached list at Annexure A' (rather than the annexure to the guidelines being referred to as providing 'examples of the types of projects that could be funded');
- remove public toilets and interpretative centres from the types of projects that were eligible for funding;
- adjust the items that funding could be used for to include 'site preparation', while removing from eligible activities 'architectural design' and the reference to 'construction related to preparatory work such as necessary engineering and geotechnical studies having to commence within six months of the study outcomes';
- state that funding could not be used for activities that were covered by the National Black Spot Program;
- specify that, in order to access funding, councils would need to provide details of the projects the funding would contribute to (prior to receiving the funding), rather than within two months of signing an agreement;
- re-word the section on progress reports so that councils would consider adopting 'appropriate project management arrangements proportionate to the size and nature of the projects'; and

- bring forward the timing from 30 June 2009 to 30 May 2009 for when councils would be required to provide a progress report on approved projects.

2.15 In addition to program guidelines for each component of the RLCIP, the department developed a document entitled ‘Frequently Asked Questions’ (FAQs). This document was expected to be read in conjunction with the guidelines as it was intended to provide information on the program’s objectives and timeframes and an overview of the submission and approval processes. It also provided examples of the types of projects for which funds could be used. The document was first released on 16 December 2008, and was re-published on 19 December 2008.⁴²

Round 2—\$100 million allocated

2.16 In relation to Round 2, separate guidelines were compiled for the Strategic Projects component and the Council Allocation component. On 4 September 2009 the then Minister approved both Round 2 program guidelines, subject to a number of amendments. The Round 2 guidelines were subsequently approved by the Expenditure Review Committee at its 28 September 2009 meeting.

2.17 On 9 October 2009, the then Minister for Infrastructure, Transport, Regional Development and Local Government announced that applications had opened for Round 2 of the RLCIP, and that new guidelines and supporting information for Round 2 were available on the department’s website.⁴³ In relation to the Council Allocation component, the then Minister stated that \$100 million was to be shared between all councils and shires, based upon the submission of eligible projects, and that submissions would close on 20 November 2009.

⁴² A revised Frequently Asked Questions document was published on 16 February 2009 to reflect the increased funding for the Strategic Projects component and the re-opening of applications for that component. A further revision to the document was released on 23 March 2009, to reflect that Strategic Projects component applications had closed.

⁴³ The Hon Anthony Albanese MP, Minister for Infrastructure, Transport, Regional Development and Local Government, *Applications Open for \$220 million in Community Infrastructure*, Media Release, AA418/2009, 9 October 2009.

2.18 The Round 2 Council Allocation program guidelines built on the Round 1 guidelines, with amendments made to reflect the changing focus of the program and to clarify eligibility criteria and accountability requirements. Information on intended outcome, including employment, was now to be sought in the application process. Specific changes made to the Round 1 program guidelines included:

- defining that a project 'ready to proceed' is one that will begin construction within three months of signing the Funding Agreement (with the Commonwealth);
- defining that an eligible 'fit out' meant an internal construction of a facility to enable its functional use, for example, the installation of electrical sockets and lighting, or the painting of walls;
- allowing engineering, geotechnical, land surveys and site investigations as eligible activities only where they were minor⁴⁴ components of the RLCIP Project. Architectural works were added to this section of eligible activities, and project management costs were removed;
- expanding the section on ineligible projects and activities. In this respect, councils were advised that projects must provide a clear and direct benefit to the local communities within a council's jurisdiction;
- enhanced explanation of the basis of the funding allocation for each council;
- greater clarification in relation to funding arrangements in order to minimise the significant level of variations experienced in Round 1 in relation to changes in projects to be delivered, project budget shortfalls, and extensions in the project delivery timeframe; and
- more extensive and detailed accountability arrangements. Specifically:
Irrespective of the requirement to provide progress reports at nominated times, councils are required to provide the Department with immediate notice whenever their ability to deliver approved projects and meet the terms of their Funding Agreement is compromised.

⁴⁴ The Frequently Asked Questions supporting document defined minor as collectively comprising less than 20 per cent of a project's RLCIP funding.

Councils are required to maintain true, accurate and up to date plans and records, tracking and documenting the progress and history of each of their projects.

As part of progress reporting and final reporting activities, the Department may require councils to provide any or all of the following information:

- An itemised budget for each project, including estimates for individual project components at the time of application, and how these estimates compare with the actual costs incurred by the council.
- Receipts for all expenditure in relation to each of the council's project(s).
- A detailed timeline for each project, including but not limited to community consultation, design, planning, construction and fit out activities. The timeline should estimate dates for the completion of milestones and track progress against these targets.
- At the Department's discretion, councils may be required to provide audited financial statements in relation to their project(s).⁴⁵

2.19 Similar to Round 1, DITRDLG developed a FAQs document for Round 2. In this instance, separate documents were published for the Strategic Projects and Council Allocation components. The FAQs document for the \$100 million Council Allocation component was published on the departmental website at the same time as the program guidelines. While the Round 1 questions and answers relating to the \$250 million Council Allocation component were approximately two pages long, the Round 2 questions and answers were much more comprehensive (some nine pages of detailed information).

Round 3—\$100 million allocated

2.20 The RLCIP Round 3 \$100 million guidelines were based on the guidelines of the previous two rounds. However, departmental records state that these guidelines had been amended:

... to reflect the program's transition from one that was heavily focused on economic stimulus to one that concentrates on the infrastructure needs of local governments and their communities. The amendments also clarify eligibility

⁴⁵ DITRDLG, *Guidelines Regional and Local Community Infrastructure Program Round 2 – 2009/10 – \$100 Million*, 9 October 2009, Section 5, p. 4.

and accountability requirements.⁴⁶ Information on intended project outcomes, including employment, will be sought as part of the application process.

2.21 Like the earlier two rounds, a FAQs document was also developed for Round 3. For this round, the questions and answers were incorporated at the back of the program guidelines.

2.22 At the suggestion of the Department of Finance and Deregulation (Finance), a number of amendments were made to the draft guidelines for Round 3 in order for them to be consistent with the Commonwealth Grant Guidelines. These amendments included an increased focus on funding projects that provide value for money, greater clarity around roles and responsibilities, an explanation on how to address conflicts of interest, and advice on how complaints could be raised.

2.23 The Round 3 program guidelines and FAQs were originally approved by the then Minister for Infrastructure, Transport, Regional Development and Local Government on 26 June 2010⁴⁷ and emailed to councils that same day. On 6 July 2010, the guidelines were made available on the departmental website. Also on 6 July 2010, the Minister announced⁴⁸ that applications for Round 3 were now open, with applications closing on Friday 30 July 2010. In this respect, the guidelines explained that:

Should any Council not have forwarded to the Department two signed copies of the Funding Agreement with agreed projects by 30 August 2010, unclaimed funding may be redistributed to other Councils with suitable and eligible projects.

2.24 Due to the Prime Minister's announcement on 17 July 2010 that a federal election was to take place on 21 August 2010, on 20 July 2010 the department emailed all councils about the operation of the RLCIP during the

⁴⁶ In comparison to Round 2, the Round 3 program guidelines removed the eligible activities of architectural works, engineering, geotechnical, land surveys and site investigations where they were minor components of the RLCIP Project. Further, they explicitly stated that funding could not be used for project management costs.

⁴⁷ Finance advised the department that, as the proposed changes (from the Round 2 guidelines) were not considered to be substantive in nature, the Round 3 guidelines did not need to be considered by the Expenditure Review Committee. Rather, approval by the portfolio Minister would be sufficient.

⁴⁸ The Hon Anthony Albanese MP, Minister for Infrastructure, Transport, Regional Development and Local Government, *Applications Open for Community Infrastructure funding*, Media Statement, 6 July 2010, <http://www.anthonyalbanese.com.au/file.php?file=/news/XVUUQWIKABUDCIDTGTGFQVXOB/index.html> [accessed 21 January 2011].

Australian Government caretaker period. In relation to Round 3 applications, all councils were advised that:

For Round 3 (\$100 million Council Allocation) of the Regional and Local Community Infrastructure Program (RLCIP), the Department will continue to liaise with Councils and receive, assess and approve compliant projects during the caretaker period. Funding agreement negotiations with Councils will be progressed but will not be finalised until following the federal election.

The application period for RLCIP Round 3 has not changed. All completed applications, including the expenditure spreadsheets, must be submitted by 5pm 30 July 2010.

Councils are reminded that in accordance with page 1 of the Round 3 Guidelines, Round 3 projects must not commence until Councils have received a funding agreement executed by the Commonwealth.

2.25 Noting that applications closed on 30 July 2010, on 10 August 2010 the department advised the then Minister for Infrastructure, Transport, Regional Development and Local Government that, as at 9 August 2010, 1 047 project proposals from 408 councils had been received and the department had approved 37 projects from 24 councils.

2.26 In subsequent advice to the new Minister for Regional Australia, the department advised that, as at 5 October 2010, 1 569 project proposals from 558 councils⁴⁹ had been received and the department had approved 691 projects from 360 councils. At this time, the Minister was also advised that, under the program guidelines, councils were to have returned signed funding agreements to the department by 30 August 2010, or unclaimed funding could be redistributed to other councils with eligible Round 3 projects. In this respect, the department considered that the federal election and extended caretaker period impacted on its ability to distribute funding agreements to councils in a timely manner which, in turn, adversely affected the ability of councils to meet the original time period.

2.27 As a result of not being able to meet the timeframe in the guidelines, the department requested Ministerial approval to change the original deadline

⁴⁹ Departmental records show that, as at 15 September 2010 there were 12 councils that had not submitted an application for their combined \$587 000 funding allocation. By 5 October 2010, there remained eight councils that had not submitted an application for their combined \$379 000 funding allocation. These latter councils had not responded to the department's repeated email correspondence or voicemail messages offering assistance with the application process over this extended period.

for signing of funding agreements from 30 August 2010 to 29 October 2010. The revised guidelines published on the departmental website also amended the closing date and time for applications from 5pm AEST on 30 July 2010 to 5pm AEST 29 October 2010.

Funding allocations

2.28 In each round of funding, every council (565) across Australia was allocated funding, as was the Australian Capital Territory (ACT), which is not covered by a council. Similar to the Roads to Recovery Program, the funding was allocated by formula, as follows:

- all councils received a base grant. The base grant for Round 1 was \$100 000 and \$30 000 for Rounds 2 and 3;
- councils with a population greater than 30 000 considered to be facing growth pressures (those councils classified under the Australian Classification of Local Government Case as 'urban fringe' or 'urban regional') received an additional growth component. In Round 1 the growth component was \$300 000, and in Rounds 2 and 3 the growth component was \$150 000; and
- councils with at least 5 000 residents shared in the distribution of the remaining funds for the round in proportion to their general purpose Financial Assistance Grant most recent at the time of the calculation.

2.29 The distribution of program funding across Australian States and Territories was concentrated in New South Wales, Victoria and Queensland. Councils in these three states received 34, 25 and 17 per cent of the total approved funding respectively.

2.30 As outlined at paragraph 2.8, in addition to providing economic stimulus, it was intended that the RLCIP would assist councils address deficiencies in community infrastructure. In this respect, distance and dispersion from urban centres can be important factors in relative construction costs.⁵⁰ This situation is reflected in Rawlinsons Australian Construction

⁵⁰ For example, ANAO's audit of the construction of the Christmas Island Detention Centre noted that the remote location of the works increased the expected cost of the works above what would have been the case had the Centre been constructed on the mainland. See: ANAO Audit Report No.43 2008–09, *Construction of the Christmas Island Detention Centre*, Canberra, 23 June 2009.

Handbook⁵¹ (which incorporates various regional indices with the intention of providing a broad indication of cost variation within each State) and in the work of the Building the Education Revolution Implementation Taskforce (which developed a regional index to account for the higher costs of building outside a metropolitan zone).⁵² To ensure funding allocation equity and that regional areas are able to achieve similar outcomes to their metropolitan counterparts, the Building the Education Revolution Implementation Taskforce recommended in its December 2010 report that future funding for Commonwealth education infrastructure programs take into account regional cost differentials.⁵³

2.31 By way of comparison, the relative level of economic stimulus funding provided through the Council Allocation component was less for rural councils as a result of the distribution formula favouring urban councils through higher allocations. Also, no adjustment was made for the higher cost of construction work for rural⁵⁴ councils than urban councils. As a result, whilst Councils classified as rural represented the majority (54 per cent) of the total number of councils, under the operation of the formula, they received 28 per cent of funding.⁵⁵ This reflected that operation of the formula gave preference to those councils classified as being in a 'growth' area as well as those councils with more than 5 000 residents.

⁵¹ In March 2011, the department commented to ANAO that maintenance costs are ineligible under the Council Allocation component but it agrees that there is potential value in using the Rawlinsons Australian Construction Handbook.

⁵² The Taskforce reported that it used Rawlinson's as a starting point but built on this in dialogue with education authorities with the result that each school project was been assigned a factor by which raw costs were adjusted based on its distance from the nearest capital city. See: Building the Education Revolution Implementation Taskforce, *First Report*, December 2010, pp. 21 to 30.

⁵³ In addition, a national financial sustainability study of local government commissioned by the Australian Local Government Association reported that, consistent with the findings of other studies, councils in rural and remote areas have larger problems associated with asset management and infrastructure backlogs.

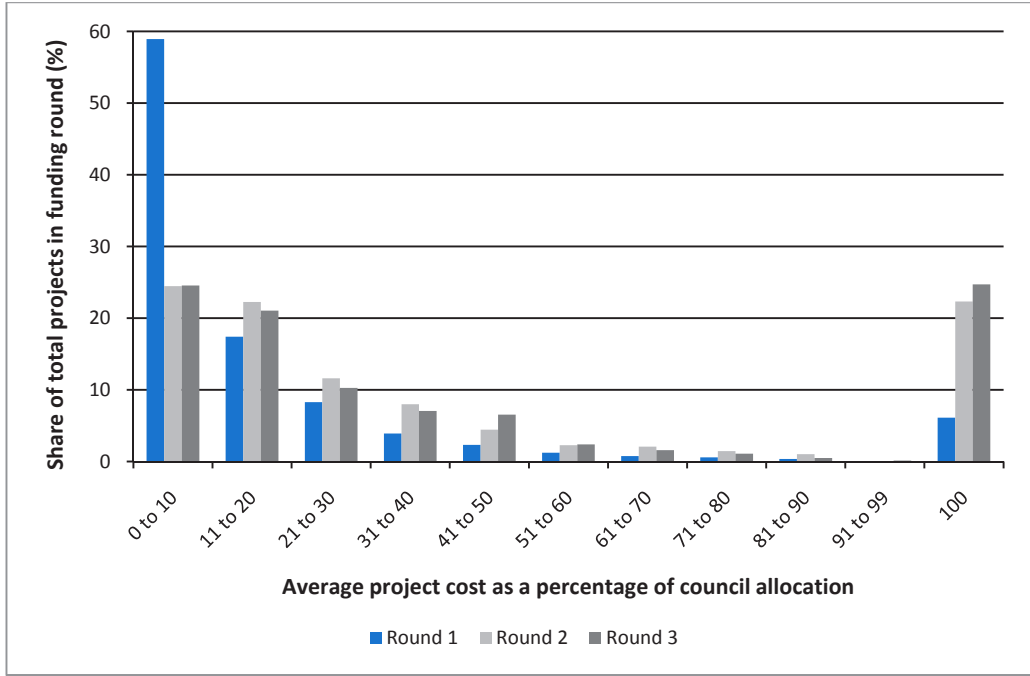
⁵⁴ In March 2011, the department commented to ANAO that its analysis, consistent across all rounds, was that the ratio of regional (rather than rural) to urban funding was 73 per cent to 27 per cent. The department advised ANAO that, using the Australian Classification of Local Governments in the 2002–03 Local Government National Report, it identified urban councils in the categories of 'Regional Towns/City' and 'A developing Local Government Authority on the margin of a developed or regional urban centre' as being regional.

⁵⁵ By way of comparison to 'rural' councils, those 46 per cent of councils classified as 'urban' received 72 per cent of the funding.

2.32 As might be expected, the higher allocations afforded to larger councils and those in a ‘growth’ area impacted upon the number of projects that each council was able to deliver. In this respect, the average size of projects as a percentage of council allocation varied considerably between the first round and the second and third rounds, as shown in Figure 2.1. Specifically, in Round 1, it was common for councils to nominate more than one project to be funded under their allocation, with few proposing to spend the full allocation on a single project given even the minimum allocation of \$100 000 can fund reasonably significant construction activity in respect to community infrastructure. By way of comparison, in Rounds 2 and 3, many councils proposed spending their full allocation on a single project.

Figure 2.1

Average project cost as a percentage of council allocation



Source: ANAO analysis.

2.33 While the allocation methodology was applied to each council, it was not applied to the ACT. For example, using the published methodology, the initial allocation for Round 1 for the ACT would have been some \$3 million rather than the \$2 million that was allocated. Additionally, as the remaining pool of funds to be allocated proportionally would have decreased, each

allocation to those councils with populations greater than 5 000 would also have been reduced.

2.34 The Round 2 allocation for the ACT was proportionate to its allocation in Round 1 compared to the available funds. Specifically, the ACT received \$2 million in Round 1 when the allocated funding were \$250 million; and \$800 000 in Round 2 when the allocated funding was \$100 million.⁵⁶

2.35 ANAO analysis of the department's application of the Round 3 allocation formula identified that, as had been the case for the first two rounds, the allocation for the ACT was inconsistent with the published methodology for funding allocations. While the department had not publicly disclosed the exception,⁵⁷ on 23 June 2010 the department advised the then Minister for Infrastructure, Transport, Regional Development and Local Government that:

The RLCIP Round 3 funding allocation uses a formula which includes a distribution proportionate to the Financial Assistance Grants allocation. This would result in the Australian Capital Territory (ACT) Government being allocated a disproportionately high (higher than the Brisbane City Council and the Gold Coast which have larger populations) funding amount. This occurs because the ACT FAGs allocation is not subject to intra-state horizontal equalisations as is the case in all other jurisdictions. There is no easy way to deal with this anomaly. As both you and the Prime Minister have announced allocations will be similar to Round 2, the department recommends an amount of \$800 000 (reduced from the formulaic representation of \$1.3m) is more appropriate to ensure the ACT is not advantaged under RLCIP. This amount is the same as the ACT received under Round 2 and commensurate with its Round 1 allocation.

2.36 The specific approval sought, and provided, by the then Minister was for an allocation of \$800 000 for the ACT. This advice also explained that the allocations for all councils (which were attached) was based on the ACT receiving \$800 000. However, the actual attached allocations listing showed the ACT allocation as \$830 000. It was this latter list of all funding allocations that was published on the departmental website on 29 June 2010.

⁵⁶ This approach was consistent with the then Minister's advice to the then Prime Minister on 22 June 2009 in relation to the \$100 million RLCIP-Council Allocation Round 2, where the Minister advised that 'The Australian Capital Territory would receive an amount similar to their share of the \$250 million allocation.'

⁵⁷ In March 2011, the department advised ANAO that a media release issued by the Australian Council of Local Government stated that councils were being funded according to a formula and the ACT (not a council) was being funded the amount of \$800 000.

2.37 It was not until 11 November 2010 in a submission to the new Minister for Regional Australia that the difference between the approval from the previous Minister and the published amount for the ACT was clarified. Specifically:

On 26 June 2010, Mr Albanese approved \$800 000 of the \$100 million of RLCIP Round 3 funding to be allocated to the ACT. As a point of clarification, the Department requests that you note that this amount refers to the Financial Assistance Grant (FAGs) component of the funding and does not include the \$30,000 base funding amount available to all councils. Therefore the ACT's full allocation under RLCIP Round 3 is \$830 000 as published on the Department's website on 29 June 2010.

2.38 In response to this submission of 11 November 2010, approval was given by the Minister for Regional Australia for all proposed council allocations. In addition, approval was specifically sought for the allocation of \$830 000 for the ACT.

Project nomination processes

2.39 Reflecting the judgement that councils were best placed to make decisions on road investment at the local level, the grant payment and acquittal processes for the Roads to Recovery Program were designed to be simple, with councils also given the freedom to use the funds as they wished, as long as it was for expenditure on roads (as defined). Similarly, for the Council Allocation component:

- the department implemented a short and straightforward application form for the first funding round⁵⁸, but more detailed application forms were adopted for the second and third funding rounds due to difficulties experienced with the first round;
- significant elements of program administration were able to be transacted online. Specifically, an online application form was made

⁵⁸ The Round 1 project proforma was four pages long with only one page relating to the actual project to be funded. The first page included the covering details and instructions on how to complete the proforma and where to send it whereas the second page related to council contact details and the last page was dedicated to a declaration by council that the information contained in the proforma was complete and correct. On the page requiring project details, the two sections that enabled free-form text related to a project description and, if the project had commenced, asking applicants to describe how the aspect of RLCIP funding would be additional to the original project. In each instance the headings to these sections stated 'maximum 350 words'. No supporting data was required to be submitted with the application.

available in January 2009 so as to speed up processing of grant applications. The online facility also enabled councils to: download their funding agreements; lodge their progress reports and final reports; and to track the status of their application and payment under the program; and

- the program guidelines for the Council Allocation component provided councils with less discretion in selecting projects. Specifically, in addition to specifying six categories of assets that were eligible for funding, councils were advised that the project that could be funded needed to be consistent with a list attached to the guidelines. In this context, a feature of this round, as well as the second and third rounds, was relatively high numbers of applications being submitted by councils that were incomplete and/or proposed to spend the available funding on ineligible activities.⁵⁹

2.40 Eligibility of work proposed to be funded was one element of the department's application assessment processes. Accordingly, affected councils were asked to amend and resubmit a compliant application. There were also instances where councils submitted an incomplete application. The department provided councils with the opportunity to submit a complete application where the original application was incomplete. In the context of an economic stimulus grants program where each council was provided with an allocation rather than competing to be awarded a grant, providing councils with some further opportunity to submit complete and compliant applications was appropriate.

2.41 Applications to the first round closed on 30 January 2009, but councils were encouraged to submit their applications as soon as possible, with assessment commencing on a rolling basis once applications were received. The delays caused by councils submitting incomplete applications and/or nominating ineligible projects did not assist with the objective of providing a timely economic stimulus. In particular, only 66 per cent of approved project applications had been submitted by the closing date. A further 30 per cent of

⁵⁹ For example, the Program Status Report provided to the December 2009 meeting of the Program Management Board (the first report provided in respect to applications to the second round) advised that more than 14 per cent of those applications that had been assessed were considered by the department to be non-compliant, largely because they related to projects eligible for funding under existing Commonwealth programs or were for otherwise ineligible activities (such as amenities blocks).

applications were received by the end of March 2009. The last of those applications approved for funding was received in May 2009.

Round 2

2.42 Some changes were made to application processes for the second round to reflect lessons learned by the department. In particular:

- to assist councils to produce better quality applications they were provided with a longer application period under Round 2 as compared to Round 1 and there was a longer period from announcement to close of application period;
- there was a greater level of detail in the Round 2 program guidelines and more FAQs compared to Round 1;
- councils were sent a 'How to apply' CD, which included 20 slides on the key issues and the level of detail required in the Round 2 applications, along with requisite timelines;
- the Round 2 application form prioritised and delineated RLCIP funded projects from the total Council project, so that both parties would know what elements were being Commonwealth funded;
- the Round 2 application form asked for GEOCODED and costed project details, along with timelines for construction. It was hoped that this would lower the risk of projects being delayed due to the requirement for greater up-front planning by the council; and
- the assessment team was more prepared for implementation and execution and was better resourced, with the section also making use of a dedicated 1800 InfoLine team to assist communication and clarification with Councils.

2.43 In addition, the project nomination proforma for the second round requested additional information from applicants. For example, in the project description section of the form, applicants were required to provide for the RLCIP project:

- a detailed description;
- a list of construction works to be undertaken;
- a cost breakdown for major components;
- information on key milestones and corresponding calendar dates;

- a detailed list of activities and inclusions;
- cost estimates for study, design or planning activities;
- details of any approvals required; and
- details of community consultation processes.

2.44 Similar to the first round, applications were encouraged to be received prior to the closing date of 20 November 2009. Reflecting the high number of incomplete and/or ineligible applications that were again received, whilst 565 applications for 1585 projects had been received in November 2009, only 67 per cent of applications subsequently approved were submitted by the due date. Applications for projects subsequently approved were still being received by the department in February 2010 (14 per cent) and March 2010 (four per cent).

Round 3

2.45 Similar to the first two rounds, Round 3 applications were to be submitted to the department by councils through a web-based interface. However, the technology solution for this round differed to the previous two rounds. In Round 3, a departmental system (known as Clarity), publically referred to as the Grants Management System (GMS), was established to enable proponents to download and upload applications with the department in a secure online environment.

2.46 In addition, for Round 3 a 'smart form' application form was developed for proponents to use via the GMS portal located on the departmental website. The intent of this form was to enable direct transfer of the information provided by applicants into the Clarity⁶⁰ system. This approach was expected to save the department data entry effort as well as reducing the potential for transcription errors. Separate to the application form, councils were required to submit an Expenditure Breakdown Details Form for each project.

2.47 As explained in paragraph 2.25, while the caretaker period commenced prior to applications, each council was advised that applications still needed to

⁶⁰ 'Clarity' is a CA (formally known as Computer Associates) web-enabled project and portfolio management system being used by various Australian Government departments and agencies. In July 2010, the Clarity grants management system was being implemented by the department to support the management of grant programs. RLCIP Round 3 was the first program to use Clarity. Phase 1 of Clarity 'went live' on 5 July 2010 to accommodate the Round 3 application opening date.

be submitted by the closing date of 30 July 2010. However, on 10 August 2010 the department advised the then Minister for Infrastructure, Transport, Regional Development and Local Government that, as at 9 August 2010, 1 047 project proposals from 408 councils had been received and the department had approved 37 projects from 24 councils.

2.48 In the department's advice, the Minister was also informed that full assessment of each project proposal and development of funding agreements, was currently taking twice as long as experienced under Round 2. In this respect, the reasons provided for the delay included:

- incomplete applications: of the applications that had been assessed to date, approximately 87 per cent had been incomplete. By comparison, approximately a third of applications were ineligible under Round 2;
- late applications: 90 per cent of the applications that the department had received to date were submitted within the last two days of the application period, which closed on 30 July 2010. As at 9 August 2010, the department had assessed that 158 (28 per cent) councils had still not submitted an application;
- Information Technology Systems: the department had introduced a new grants management system for all local government and regional programs, phase 1 of which was rolled out the same day Round 3 commenced (applications opened). The department considered that the limited functionality of the first phase, and its newness for both councils and staff, were also factors in extending the time taken for assessment; and
- funding: as Round 3 did not include any departmental funding, the department considered that this limited its options to 'buy-in' additional processing capacity.

2.49 As at 8 September 2010, 1 472 project proposals from 551 councils had been received by the department, with the department approving 179 projects from 130 councils. As at 14 September 2010, the department had approved 213 projects from 150 Councils. By 5 October 2010, 1 569 project proposals from 558 councils had been received and the department had approved 691 projects from 360 councils.

Application assessment

2.50 In order to achieve the desired economic stimulus outcomes from the program, considerable effort was exerted by the department to assess and approve project applications from councils in a timely fashion. A similar methodology was employed for the receipt of applications for each round, modified to reflect the differences in the various program guidelines.

2.51 The departmental assessment process involved a web-based system intended to ensure that a consistent approach was undertaken. The assessment process for the first round addressed whether an application met the requirement to spend funds by 30 September 2009 and was consistent with other aspects of the guidelines including being for an eligible category of infrastructure and for eligible costs.⁶¹

2.52 Submitted applications to the first round were assessed quickly by the department. There was an average of 12 days taken between applications being lodged and assessment commencing, and an average of 39 days taken from when an application was submitted to a funding agreement being prepared.

2.53 The Council Allocation component was similar to a demand-driven grants program under which applications that satisfy stated eligibility criteria receive funding, up to the limit of available appropriations and subject to revision, suspension or abolition of the program.⁶² In such programs, eligibility criteria applied are of particular importance. Accordingly, the focus of the department's assessment activities was on being satisfied that applications were completed and complied with the published program guidelines and guidance in the FAQs document. As the Council Allocation component did not involve competitive funding rounds, the department did not need to prioritise (or rank) competing, eligible applications in terms of the available funding.

2.54 Nevertheless, the obligation to assess the efficient and effective use of public money for a proposed grant is the same regardless of how a project

⁶¹ The FAQs explained to councils that careful consideration should be given to nominated projects to ensure they are consistent with types of projects listed at Annexure A in the program guidelines. While not compulsory, councils were advised that they could provide a prioritised list of projects that exceeded their allocation in order to enable eligible projects to be identified from the list which met the total funds allocated to that council. Where additional projects were provided, it was council who determined the priority of each project, not the department.

⁶² ANAO Better Practice Guide, *Implementing Better Practice Grants Administration*, Canberra, June 2010, p. 44.

proposal comes before an approver and regardless of whether project proposals are assessed and ranked in comparison to one another.⁶³ In addition to the departments own assessment, for the second and third rounds of the Council Allocation component, the department engaged a specialist assessor with experience in other Commonwealth grant programs to assess, through a risk based approach⁶⁴, 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:

- 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 were unrealistic, such that there was a possible risk of fraud or risk to the viability of the project.

2.55 In total, 150 projects (of a possible 1 652 nominated Round 2 applications) were reviewed (at a cost of approximately \$300 per project), with departmental records stating that:

The experience of undertaking the independent reviews has been very positive, and in one case alone identified a \$200 000 inaccurate costing which allowed for an additional project to be undertaken by the applicant.⁶⁵

2.56 As the work of the independent reviewer did not represent a quantity surveyor assessment, a broad level assessment was undertaken with the reviewer informing the department of his general approach to various common categories of projects. For example, the independent reviewer informed the department that footpaths vary in cost depending on a range of

⁶³ ANAO Audit Report No.24, 2010–11, *The Design and Administration of the Better Regions Program*, Canberra, 27 January 2011, p. 81.

⁶⁴ Value for money reviews were conducted where the department held concerns about the past performance of the relevant council funding recipient as well as focusing on those councils who were receiving the larger allocations under the program. In this respect, each of the project nominations to be reviewed was selected by the department.

⁶⁵ As part of its management response, the department required that this council enter into a Long Form Funding Agreement for Round 2, whereas Short Form Funding Agreements were used for most councils.

factors such as design considerations, the materials used and proposed usage.⁶⁶ The assessment approach taken involved comparing the budget against 'standard' industry rates⁶⁷ and then seeking further information to support higher costs when the amount submitted by council was outside of those rates, whilst also having regard to relevant design standards and the cost of any other similar projects.

2.57 Amongst other things, the lessons learned from Round 1 and the additional information requested as part of the project application (as mentioned in paragraphs 2.42 and 2.43) had an impact on the time it took the department to assess second round applications. In this respect, the department's assessment of project applications in the second round took longer than it did for first round applications. It took on average 40 days to commence the assessment of submitted applications with, a further 58 days taken on average for a funding agreement to be prepared, and a further 25 days on average for agreements to be signed.

2.58 In respect to the third round, whilst value for money assessments were again undertaken, a number of other planned⁶⁸ assessment processes were either abandoned before they had been applied to all applications or not employed. The department viewed this as necessary and appropriate (on a risk-basis) given the delays that had already occurred and the target of having all project nominations approved by 30 September 2010.⁶⁹ As at mid-February 2011 (when ANAO audit fieldwork was completed), 497 funding agreements had been signed, but 68 agreements (12 per cent) had not yet been completed and signed. In addition, notwithstanding the steps taken to truncate the

⁶⁶ For example, the reviewer advised that a low volume pedestrian path would be significantly more narrow than a dual use (pedestrian and bicycle) path which should be a minimum of 2.5 metres wide, and that dual use paths would normally have additional costs associated with line marking and safety runoff areas.

⁶⁷ This required the following information to be obtained from councils who had a footpath project selected for independent review: the length of the path (generally stated as linear metres); the width of the path; and materials to be used (for example, gravel, asphalt or concrete).

⁶⁸ The department did not prepare and finalise a procedures manual until after the application and assessment processes were completed. The procedures manual that was finalised reflected the procedures that were actually adopted rather than those that had been planned. In this respect, the manual did not perform a role as a guide for staff but was more of a record of what had actually been done. In this respect, in March 2011 the department advised ANAO that 'the procedures were formalised in the form of Assessor Checklists but these were not consolidated into the procedures manual until after the application phase. As time constraints increased, procedures needed to be modified to address this, and were documented in an ongoing fashion.'

⁶⁹ This target date was subsequently changed to having assessments completed by 31 October 2010.

assessment process, for those councils with a funding agreement signed, the time taken in Round 3 to reach this milestone has been, on average, 127 days (significantly longer than Round 1, and slightly longer than Round 2). The majority of the delay occurred after assessments were completed (69 days).

2.59 In respect to value for money, the same independent reviewer was engaged and, for this round, 191 project nominations submitted by 50 councils were identified for review. Departmental records revealed that various issues raised by the independent reviewer were followed-up by the department with the proponent council including, as appropriate, seeking further information from council or requiring adjustments to the nominated project. In this context, all risks of a significant nature⁷⁰ were required to be treated prior to approval of funding being sought from the relevant General Manager.

2.60 Against this background, ANAO raised with RA and the Department of Infrastructure and Transport whether the value for money initiative adopted for the Council Allocation component of the RLCIP might be of potential value in the ongoing administration of the Roads to Recovery program. In this respect, RA informed ANAO that it regularly liaises with the Department of Infrastructure and Transport on a variety of issues to share lessons learned in programs across the portfolios. In addition, the Department of Infrastructure and Transport informed ANAO that:

It has been our experience that councils aim to deliver the same level of cost effectiveness from their Roads to Recovery (R2R) projects as they do for road works funded from their own sources. In the same way that councils choose the projects to be funded under R2R, individual councils are best placed to assess whether a proposed project represents the best use of their available resources. In this regard, I note that ANAO Report No.31 2009–10 on the R2R Program did not suggest that R2R projects were not achieving value for money.

I understand that the Department of Regional Australia, Regional Development and Local Government has already contacted this department to arrange an exchange of information and lessons learned in order to contribute to continual improvement in the management of both R2R and RLCIP.

⁷⁰ Both those identified by the independent reviewer and those identified by the assessing officer.

Conclusion

2.61 Consistent with the intention of providing timely economic stimulus by funding new construction work and major renovations or refurbishments, the program administrative arrangements were designed to be simple. In addition, considerable effort was exerted by the department to obtain eligible project nominations from councils by the relevant application closing dates, and to assess and approve project applications in a timely manner so that a funding agreement could be signed and funds paid as soon as possible.

2.62 The focus of the department's assessment activities was on being satisfied that applications were complete and complied with the published program guidelines and guidance provided to councils in a FAQs document.⁷¹ Starting with the second round, the department enhanced its assessment practices to explicitly examine (for a risk-based sample of projects) whether the budgets submitted by councils represented a fair and reasonable estimate of likely costs, thereby providing greater assurance that the projects nominated by councils represented value for money.

⁷¹ As the Council Allocation component did not involve competitive funding rounds, the department did not need to prioritise (or rank) competing, eligible applications in terms of the available funding.

3. Delivery of economic stimulus

This chapter examines the outcomes of the individual rounds of the Council Allocation component.

Introduction

3.1 One of the seven key principles for grants administration outlined in the Commonwealth Grant Guidelines is to have an outcomes orientation in all aspects of program design and implementation. Accordingly, and as outlined in ANAO's Grants Administration Better Practice Guide,⁷² an essential component of any grant program is the establishment of an effective performance framework that enables the administering agency to reliably establish:

- the outcomes achieved through individual grants; and
- overall program outcomes.

3.2 Various ANAO audit reports, including those of other economic stimulus programs such as the Home Insulation Program and the Primary Schools for the 21st Century element of the Building the Education Revolution program, have highlighted the challenges in implementing government programs. Amongst other things, these audit reports have drawn attention to the importance of agencies giving sufficient emphasis to comprehensive, timely and accurate monitoring of program performance and reporting to senior executives within the agency as well as other key stakeholders such as Ministers and the Parliament.

3.3 Against this background, in its 2008–09 Annual Report, the then Department of Infrastructure, Transport, Regional Development and Local Government outlined that, as a result of a review of governance arrangements across the department's program management operations, a number of project boards had been established to oversee and report on program planning and implementation.⁷³ These project boards included the Local Government and

⁷² ANAO Better Practice Guide, *Implementing Better Practice Grants Administration*, Canberra, June 2010, p. 98.

⁷³ Department of Infrastructure, Transport, Regional Development and Local Government, *Annual Report 2008–09*, 19 October 2009, pp. 3 and 116.

Regional Development Division (LGRD) Program Management Board, which was the area in the then department that was responsible for the design and implementation of the RLCIP.

3.4 The report of ANAO's audit of the Strategic Projects component of the RLCIP reflected positively on the department's tracking of program performance through the LGRD Program Management Board reporting process. As noted in that report, the reporting to the Board demonstrated that the department was aware that, whilst the majority of projects funded under the Strategic Projects component were proceeding in accordance with their funding agreements, there were delays with a significant number of projects which was having an adverse impact upon the level and timeliness of program expenditure.

3.5 Similarly, as part of this governance arrangement, Program Status Reports were prepared each month in respect to the Council Allocation component of the RLCIP. The purpose of the Program Status Reports was to provide a formal update of program progress and track the overall extent to which projects had been assessed, approved and funding agreements signed as well. Payments to councils and progress reports/final acquittals received from councils were also reflected in these reports. Although important to the success of the Council Allocation component in providing timely economic stimulus, the Program Status Reports did not include analysis of the content of progress reports/final acquittals submitted by councils. In particular, the reports focused on the extent to which councils had provided a report, not whether reporting by councils showed that program funds had been spent in the desired economic stimulus timeframe.

3.6 The LGRD Program Board ceased operating after its July 2010 meeting (which considered data up to 30 June 2010). Subsequently, Program Status Reports for the Council Allocation component were no longer generated. In March 2011, RA advised ANAO that :

It should be noted that the LGRD Program Board was only relevant for Round 1 of the program, despite Round 2 being included in the reporting updates as the board was established to address issues identified with program delivery under the Nation Building Economic Stimulus Plan.

Following the cessation of the LGRD Program Board in June 2010, reporting was instigated again in September 2010 in the form of the LGRD Monthly Report.

In addition to the LGRD Monthly Report, Progress Report Minutes were provided to the Minister that outlined slippage and non compliance.

The department now provides monthly reports to Senior Executive as a matter of course.

Construction of community infrastructure

3.7 Across the three funding rounds, the Council Allocation component has seen the approval of Commonwealth funding for some 6 000 local infrastructure projects. This comprised 3 220 approved projects for Round 1, 1 438 approved projects for Round 2 and at least 1 353 approved projects for Round 3.⁷⁴ Figure 3.1 and Figure 3.2 are examples of completed projects that received funding under Round 1 of the Council Allocation component.

Figure 3.1

City of Joondalup (WA): Rebuilding of Burns Beach Groyne⁷⁵



Source: ANAO site inspection, August 2010.

⁷⁴ As at mid-April 2011, there were 1 353 Round 3 projects included in signed funding agreements with 557 councils. Approved projects and associated funding agreements were still being finalised for the remaining councils.

⁷⁵ In line with the recommendations of a report by the State Department of Planning and Infrastructure, the project was to rebuild the groyne to the original length so as to protect the Tamala Park coastal area. The project also included a concrete footpath and viewing platform for fishing and recreational purposes. The project was fully funded by the Council Allocation component (\$150 000) with work reported as undertaken between May 2009 and September 2009.

Figure 3.2

Renmark Paringa Council (SA): Changerooms and Viewing Facilities⁷⁶



Source: ANAO site inspection, September 2010.

3.8 For each round, the published program guidelines outlined six categories of community infrastructure projects on which funding could be used to construct new or upgraded facilities, or for refurbishment or fitout works. As indicated by Table 3.1, most of the approved projects put forward by councils were in the areas of children, youth and seniors facilities (33 per cent) or access facilities (24 per cent). The number of projects and the relative proportion of funding approved for these projects categories of community infrastructure were similar. Relatively few projects, involving a minor amount of overall funding, related to tourism infrastructure or environmental initiatives.

⁷⁶ In December 2008, council sought advice from the department as to whether it could nominate for funding a project that had completed the tender process but was unable to proceed due to a lack of funds. Accordingly, the provision of \$374 000 in Council Allocation component funding to the \$1.122 million project to replace an old grandstand that had been found to be structurally unsound with a new changeroom complex and viewing facilities for 200 people, with work reported as having been undertaken between January 2009 and April 2009, provided economic stimulus in the desired Round 1 timeframe.

Table 3.1**Types of work approved for funding: Rounds 1, 2 and 3**

Category	Number of projects (% of total)	Funding approved (% of total)
Access facilities	24	21
Children, youth and seniors facilities	33	37
Environmental initiatives	9	8
Recreation facilities	14	14
Social and cultural infrastructure	14	13
Tourism infrastructure	7	7
Total	100	100

Source: ANAO analysis of RA data.

3.9 At the time of finalising the proposed report of this audit (mid-March 2011), final reports from councils were due in respect to Round 1 (by 30 November 2009) and Round 2 (28 February 2011) but not in respect to the Round 3. In this respect, by mid-March 2011 final reports had been received for 4 297 of the 4 658 approved projects for which they were due (acquittal of \$300.599 million of the \$349.998 million paid to councils in the first two rounds).

3.10 Through the final reports, the department asked councils to indicate whether they had delivered a project that was consistent with the one that had been approved for funding (incorporating any approved variations) and that funding had only been used for eligible activities (as defined by the program guidelines). Whilst recognising that there is a risk of under-reporting in any system of self assessment, councils reported to the department relatively high levels of compliance in Round 1, as follows:

- 147 instances (5 per cent) where the completed project was reported as not matching the approved project; and

- 95 instances (3 per cent) where not all of the approved funding was reported as being spent on the approved activities.⁷⁷

3.11 For Round 1, councils reported that the significant majority (nearly 90 per cent) of acquitted funding had been used for construction or fit-out works. Relatively small amounts were reported as having been used to fund councils' internal costs (2.9 per cent), preparatory work⁷⁸ or land surveys and site investigations (3.1 per cent)⁷⁹ or project management (1.2 per cent). The guidelines for the second round informed councils that they were no longer permitted to use the Commonwealth funding for project management costs.

3.12 In terms of providing timely economic stimulus, for 34 per cent of acquitted projects, councils reported that Round 1 funding had not been fully used by the deadline of 30 September 2009. In this context, the published program guidelines for Round 1 had required that all funding be spent by 30 September 2009 (unless otherwise agreed by the Minister) but had also required that the funding be used for:

additional ready-to-proceed community infrastructure projects and for additional stages of projects that are already underway. *[emphasis as per original]*

3.13 Similar guidance was included in the program guidelines for the second and third rounds (with timeframes of 31 December 2010 and 31 December 2011 respectively). As at mid-March 2011, final reports for 76 per cent of Round 2 projects (relating to 70 per cent of Round 2 funding) had been submitted to the department for acquittal. Some 61 per cent of projects had been reported as having been completed by the required date of 31 December 2010.

⁷⁷ In addition, for 121 projects (4 per cent), councils advised the department that they had not maintained auditable financial records for expenditure on the project. In this respect, in March 2011 the department advised ANAO that: 'Upon further investigation, it was discovered that all of the instances were reporting errors made by the council. The department contacted councils where they indicated that records were not maintained and each council contacted was in fact able to provide records regarding the expenditure of the funding.'

⁷⁸ Such as engineering or geotechnical studies.

⁷⁹ Compared with Round 1, the Round 2 guidelines indicated that, where they are minor components of the project, funding could be used for engineering, geotechnical or architectural works, and/or for land surveys or site investigations. This clause was removed from the Round 3 guidelines, indicating that such costs could no longer be charged to the program.

3.14 In Round 2 and Round 3, councils were also advised that, to be considered ‘additional’, the project must not be included in council’s financial budget for 2009–10 (Round 2) or 2010–11 (Round 3), or the project was being brought forward as a result of RLCIP funding.⁸⁰ There is a tension that exists in seeking to fund ‘ready to proceed’ projects whilst at the same time requiring that the work not be already budgeted to proceed. In this respect, a number of councils explained to ANAO that projects typically will not be developed to a ‘ready to proceed’ stage until they are placed on a council’s capital works budget (meaning that council had made an in-principle decision for the project to be funded).⁸¹ The challenges experienced by councils in delivering approved projects in the desired economic stimulus timeframe are examined at paragraphs 3.22 to 3.52.

Payment of funds to councils

3.15 In the context of an earlier audit, the Department of the Treasury (Treasury) informed ANAO that, where infrastructure and public capital works projects can be implemented quickly, they are likely to boost aggregate demand in the short term and add to productive capacity over the longer term.⁸² Accordingly, key parameters in the design of the RLCIP related to funding ready to proceed (‘shovel ready’) projects that could provide timely stimulus to local communities. In the context of responding to ANAO’s performance audit of the Strategic Projects component of the RLCIP⁸³, in July 2010 DITRD LG advised ANAO in respect to the Council Allocation component that:

The \$250 million component was directed at stimulating additional growth and economic activity as part of the Australian Government’s contribution to address the global economic crisis. The funds were available for additional

⁸⁰ The funding agreements developed by the department did not fully support the requirement that funding be directed towards additional ready-to-proceed projects—in each round, the funding agreement made no reference to the requirement that such projects be additional.

⁸¹ This issue was exacerbated in the later rounds when the program guidelines explicitly reduced or removed the capacity of proposed projects to include project development and project management elements in the project budget (see further at paragraph 0 and footnote 46).

⁸² ANAO Audit Report No.33, 2009–10, *Building the Education Revolution—Primary Schools for the 21st Century*, Canberra, 5 May 2010, p. 14.

⁸³ 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.

ready-to-proceed community infrastructure projects and for additional stages of projects that were currently underway. The funding was provided directly to all councils as a one-off, up-front payment. These projects were commenced quickly and provided immediate stimulus in all communities throughout Australia.

3.16 As indicated by DITRD LG's July 2010 advice to ANAO, payments associated with the first and second rounds were paid, in-full, following signing of a funding agreement between the Commonwealth and the funding recipient.

3.17 In respect to Round 1, the first funding agreement was signed on 25 February 2009, with the accompanying payment being made on 27 February 2009. Reflecting the delays in many councils submitting eligible applications, the last two funding agreements were not able to be signed until 27 May 2009, with the associated payments being made on 28 May 2009.

3.18 Similar to the first round, the Round 2 program guidelines outlined that payments would be structured to schedule the release of 100 per cent of funds to councils on signing of a funding agreement. Compared with the first round, there was a considerable delay in the finalisation of funding agreements, with this process taking on average 123 days from the receipt of the application.⁸⁴ Accordingly, the majority of funding (\$91.5 million) was not paid to councils until between 30 March 2010 and 30 June 2010.

3.19 For the third round, a different approach was taken for the payment of funds. Specifically, the department considered that a structured payment approach would provide the efficiencies of a single payment for small grants to small councils, while also better safeguarding public money in respect to the larger payments. Under this approach:

- councils receiving more than \$200 000 would have 50 per cent of the funds paid on signing of the funding agreement, followed by the remaining 50 per cent upon evidence of expenditure of the previous instalment. There were 162 instances where the allocation was greater than \$200 000 and therefore subject to two payments; and

⁸⁴ This delay was in part due to Round 1 projects not having been completed as required by the Round 2 program guidelines prior to a funding agreement being finalised (see paragraphs 3.36 and 3.37).

- 404 councils allocated less than \$200 000, were to be paid their allocation up front in one instalment

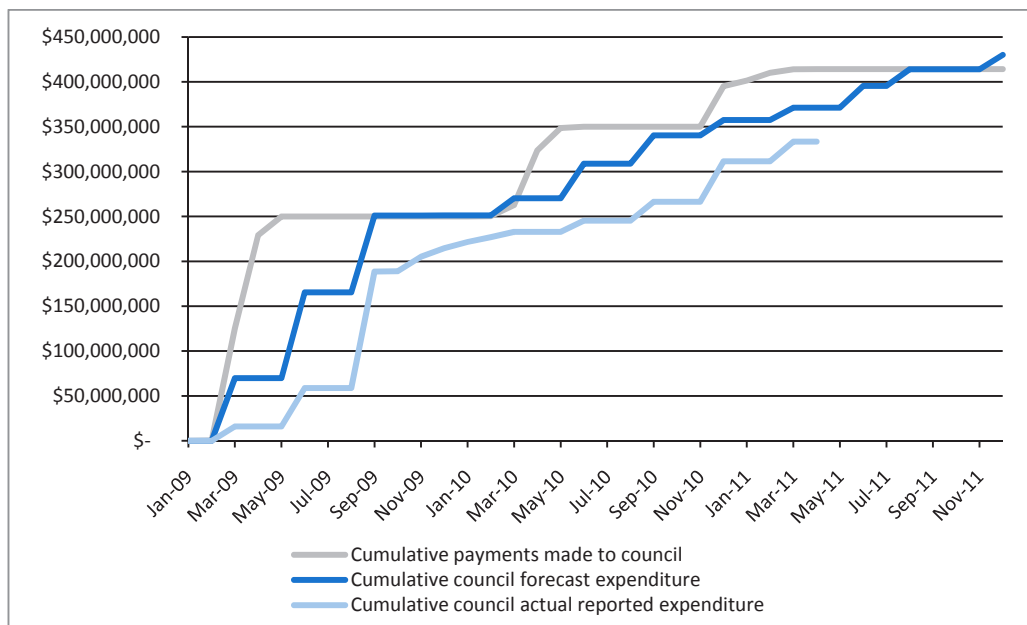
3.20 As outlined at paragraph 2.58, there was considerable delay in the finalisation of the Round 3 application and assessment process. On 7 December 2010, the new Minister for Regional Australia announced the final tranche of allocations to LGAs under the program (which had been announced some five months earlier).⁸⁵ By mid-February 2011, Round 3 funding agreements had been executed with 497 councils, for the delivery of 1 234 projects with a total Commonwealth funding of \$87.65 million. As at mid-February 2011, \$50.53 million of the \$100 million Round 3 allocation had been paid to councils. By mid-April 2011, \$64.12 million had been paid to 557 councils in relation to 1 353 projects included in executed funding agreements.

3.21 Figure 3.3 illustrates the timeframe over which payments have been made to councils under the three rounds of the Council Allocation component. It also highlights delays in the spending of these funds by councils, when compared both with the payments made by the Commonwealth and forecasts submitted by councils with their applications as to when they expected to spend the funding. These issues are examined further in the following section.

⁸⁵ The Hon. Simon Crean MP, Minister for Regional Australia, Regional Development and Local Government, *Transcript of doorstep at Parliament to announce \$100 million for community infrastructure – with Dr Andrew Leigh MP*, Transcript, SCT036/2010, 7 December 2010.

Figure 3.3

Delivery of economic stimulus: Rounds 1, 2 and 3



Source: ANAO analysis of RA data. Note: The chart includes Round 3 forecast expenditure from progress reports (for the full project amount as reported) but at the time of reporting there was no forecast payment data for outstanding payments to councils (amounting to some \$35.9 million). Accordingly, the chart only includes the amounts paid to councils to date.

Council expenditure of funds

3.22 Consistent with the economic stimulus nature of the Council Allocation component, the guidelines for each round provided clear deadlines by which funding was to have been expended on approved projects. Specifically, for the:

- first round, all funding was to be spent by 30 September 2009;
- second round, all funding was to be spent by 31 December 2010; and
- third round, all funding is to be spent by 31 December 2011.

Expenditure profiles

3.23 For the first two funding rounds, the program governance arrangements indicated that the department was interested in tracking expenditure by councils through:

- councils being asked to include a forecast spending profile with their application;

- regular progress reports on actual expenditure in the period as well as anticipated expenditure in future periods. Specifically:
 - for the first round, a progress report was due on 30 May 2009 for information up until 30 April 2009; and
 - for the second round, progress reports were due on 31 May 2010, 31 July 2010 and 31 October 2010 for information up to 30 April 2010, 30 June 2010 and 30 September 2010 respectively; and
- a final report on the expenditure of Commonwealth funding. This report was due on 30 November 2009 for the first round and on 28 February 2011 for the second round. The final report required councils to acquit expenditure in each quarterly period.

3.24 For the third round, councils were not asked to provide a forecast expenditure profile for the nominated projects as part of the application.⁸⁶ Two progress reports are required to be submitted on 1 March 2011⁸⁷ and 1 September 2011. In this respect, Round 3 progress reports sought details of the actual and proposed expenditure of RLCIP funds by various periods (related to the timing of progress reports). However, the value of obtaining forecasts is reduced because a baseline for the project was not established at the time the project was nominated and approved for funding.

3.25 The progress reporting arrangements for the first two rounds have provided useful information for the department to monitor the performance of councils in using the funding in providing an economic stimulus through the spending activity of councils. For example, the Round 1 30 April 2009 progress report submissions revealed that councils had been slower than they had forecast in spending their payments, with less than 23 per cent of the amount councils had collectively forecast that they would have spent by 30 April 2009

⁸⁶ Whilst the application form required councils to email an Expenditure Breakdown Details Form to the department, this form required councils to provide a breakdown of the nature of the works to be undertaken and to indicate the extent to which the cost of the works would be met from the Council Allocation component, other Commonwealth programs, State Government funding and the council's own resources.

⁸⁷ As many councils had not commenced construction on their Round 3 projects or had experienced delays in construction (in some cases due to recent flooding), the department deferred the first progress report for a month from 1 March 2011 to 1 April 2011. In addition, rather than submitting progress reports via an internet portal as was the case for Rounds 1 and 2, the department's approach is to email councils a progress report form for each project to be completed by 1 April 2011.

being reported to the department as having been spent.⁸⁸ The progress reports submitted by councils indicated that a significant factor in the slower than expected spending of the Round 1 funding was that, whilst the program was intended to fund 'ready to proceed' projects, there had been considerable delays in a significant number of projects commencing.

Recommendation No.1

3.26 To improve the monitoring of performance by funding recipients, ANAO recommends that the Department of Regional Australia, Regional Development and Local Government require grant applications to include a profile of planned expenditure, and progress reports to include revised expenditure profiles.

RA response

3.27 RA agreed to the recommendation, and commented as follows:

The department has implemented this profiling for RLCIP Round 2; and for Round 3, planned expenditure profiles are collected in regular progress reports. This profiling will be implemented in future program administration including the Regional Development Australia Fund.

Project commencements

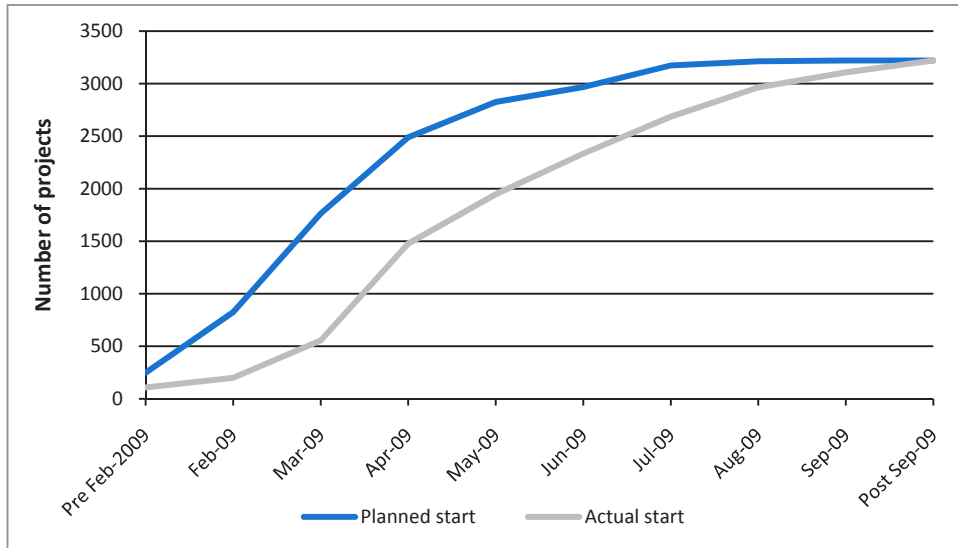
3.28 As illustrated by Figure 3.4, half of all approved projects for Round 1 had been approved on the basis of a council forecast that it would have commenced by the end of March 2009. However, by the end of March 2009, only 17 per cent of approved Round 1 projects had been reported as having commenced. In response to delays in projects commencing and the funds being spent, the department contacted proponents and requested that an additional Round 1 progress report be provided by 30 July 2009. Significant numbers of projects were reported as having commenced in April, May and June 2009 but the earlier slippage had not been fully recovered such that, as of 30 June 2009, more than 27 per cent (nearly one in three) of projects had not yet been reported as being underway, when the forecasts submitted by councils had

⁸⁸ Council's had forecast that they would have spent \$69.74 million by 30 April 2009, but reported in their first progress report that they had spent \$23.43 million. However, in their final acquittal reports for round one, council's further reduced their reported actual expenditure in the period up to 30 April 2009 down to \$15.96 million.

indicated that fewer than 8 per cent of projects should have been yet to commence.

Figure 3.4

Round 1 projects: planned and actual start dates reported by councils



Source: ANAO analysis of RA data.

Stimulus spending

3.29 As outlined in ANAO's audits of other economic stimulus programs involving the funding of infrastructure construction projects,⁸⁹ the typical situation found in respect to construction projects is that expenditure follows an S-curve, usually with a slow start but reaching a peak by the 50 per cent to 75 per cent complete construction milestones before flattening out towards the end of the project. This situation was reflected in the Council Allocation component, where the delays in Round 1 projects commencing led to a significant consequential lag in the funds paid to councils being spent. Specifically, and as illustrated by Figure 3.5:

- in their applications for the approved projects, councils had forecast that they would have spent \$165.34 million by 30 June 2009 (66 per cent

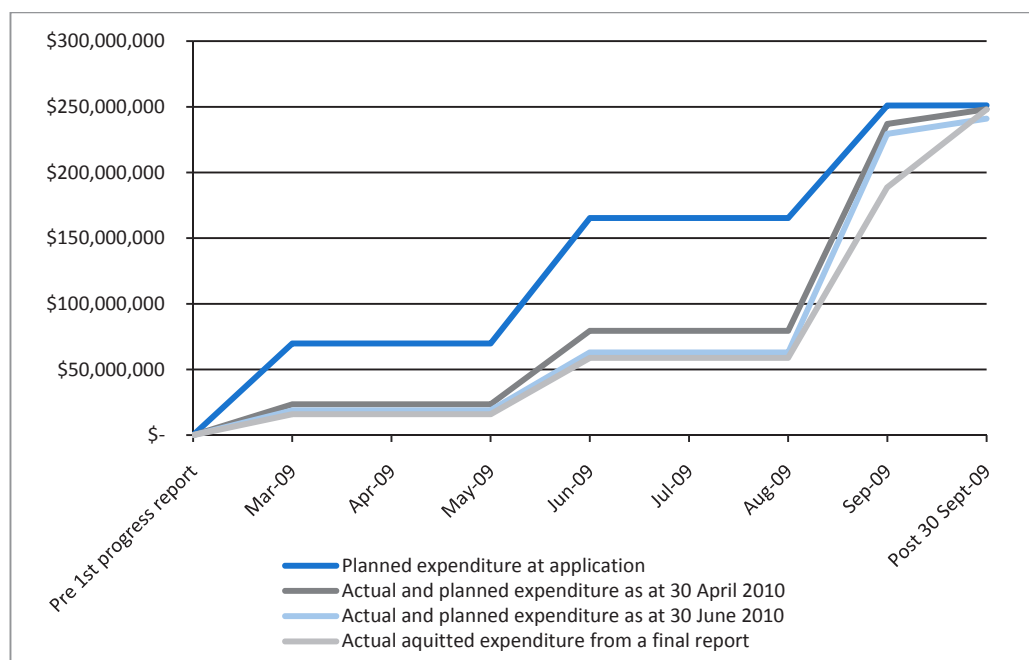
⁸⁹ ANAO Audit Report No.3 2010–11, *The Establishment, Implementation and Administration of the Strategic Projects Component of the Regional and Local Community Infrastructure Program*, Canberra, 27 July 2010, pp. 221 to 222 and ANAO Audit Report No.33, 2009–10, *Building the Education Revolution—Primary Schools for the 21st Century*, Canberra, 5 May 2010, p. 157.

of the \$250 million), however in the progress reports for the period ending 30 April 2009 councils had more than halved their forecast expenditure for the period up to 30 June 2009 (to \$79.46 million); and

- actual expenditure to 30 June 2009 proved to be even lower than the revised forecast, at \$58.85 million (26 per cent lower than the revised forecast and 64 per cent lower than the original forecast).⁹⁰

Figure 3.5

Round 1 projects: planned and actual expenditure reported by councils



Source: ANAO analysis of RA data.

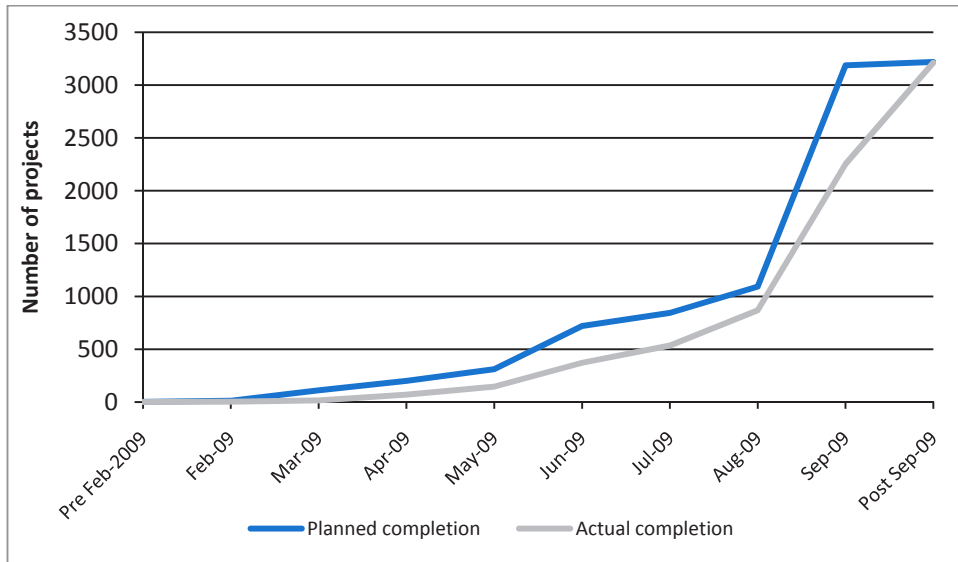
3.30 Figure 3.5 illustrates that, in each of the two progress reports, councils reported lower expenditure for the completed period than they had forecast, and revised downwards their forecast expenditure for the next period. Nevertheless, as illustrated by Figure 3.6, councils continued to indicate to the department that the majority of projects would be completed, and funding spent, by the due date of 30 September 2009. In the context of ANAO's audit of

⁹⁰ This figure is from councils final acquittal report for Round 1. As had occurred with the first progress report, the second progress reports from councils also overstated the level of expenditure. Specifically, the progress reports for the period ending 30 June 2009 had stated that \$63.00 million had been spent.

the National Black Spot Program, ANAO raised with the then Department of Transport and Regional Services that program design and governance arrangements can benefit from reflecting that there is a recognised tendency towards optimism bias in construction projects in relation to the risk of cost increases and time schedule delays.⁹¹

Figure 3.6

Round 1 projects: planned and actual completion dates reported by councils



Source: ANAO analysis of RA data.

Variations to funding agreements

3.31 Commencing in September 2009 (the month that projects were due to be completed), the department sought approval from its then Minister for variations to funding agreements to provide timing extensions (scope variations had also been sought and were being processed). Initially these variations were put to the then Minister on an individual council basis. However, as the number of councils acknowledging that they would not

⁹¹ See, for example, The British Department for Transport, *Procedures for Dealing with Optimism Bias in Transport Planning*, Guidance Document, June 2004 and Department of Transport and Regional Services' Bureau of Transport and Regional Economics, *Risk in cost-benefit analysis*, Report 110, 2005, p. 5.

complete one or more projects by 30 September 2009 grew, the department began combining the variation requests into consolidated tranches.

3.32 In October 2009, it was decided that the 430 projects expected to be delayed by three months or less would not require a variation, with the focus being on processing variations for those projects that were not expected to complete until after 31 December 2009. Reflecting the continuing slippage, in December 2009 the department advised its then Minister that, in addition to 53 projects with requested extension dates between 1 January 2010 and 28 February 2010 that had either been approved or recommended for approval, a significant number of further requests for extension were expected to be received. As a result, the department further amended its approach such that it was only seeking variations to funding agreements where councils requested a revised project completion date after 28 February 2010 (five months after the deadline specified in the published program guidelines). In February 2010, the then Minister agreed to delegate to the department the authority to approve variations to funding agreements.

Timing of construction activity

3.33 For many projects (64 per cent of those approved), some or all of the time 'lost' due to work not commencing as soon as council had forecast was recaptured because work was completed more quickly. As a result, 63 per cent of these projects (representing 40 per cent of all approved Round 1 projects) were still completed on or before the original forecast completion date. However:

- 24 per cent of all approved Round 1 projects, whilst completed more quickly than originally forecast, were still not completed by the completion date forecast by council at the time the application had been approved; and
- 36 per cent of all approved Round 1 projects took the same time or longer for work to be completed as had been forecast when the application was originally approved. Of these projects, 60 per cent had started later than forecast.

3.34 The result of this situation was that, overall, construction activity took place later than had been forecast by councils at the time funding had been approved. Reflecting the overall slippage in construction activity being funded under the Council Allocation component, all funds were not spent by the Round 1 expenditure deadline of 30 September 2009. Specifically, councils

reported that some \$59.27 million (24 per cent of the total for Round 1) remained unspent as at 30 September 2009. In May 2010 the department commenced action to recover funding totalling \$742 000 from six councils due to projects not commencing, projects unlikely to be completed by 30 June 2010 and/or the council not submitting any final reports or providing an explanation.

Spending of second funding round payments

3.35 For the second round, each council was assessed in respect to their past performance and the department advised ANAO that this information was used to inform decisions about which councils would be the subject of an independent value for money review.⁹² However, notwithstanding that reporting from councils as early as May 2009 was identifying that the program was not delivering stimulus in the timeframe forecast by councils, departmental records did not indicate that the department had sought to re-examine the formula for the second round so as to increase the likelihood of the funding being directed, to the maximum extent practicable, to those councils that were most likely to be able to deliver targeted and timely economic stimulus through spending on approved local community infrastructure projects.

3.36 By 20 November 2009 (the closing date for Round 2 applications), 17 per cent of Round 1 projects had not yet been completed (for Round 1, projects were to have been completed six weeks prior to this date, that is, by 30 September 2009). The program guidelines for Round 2 indicated that councils who had not yet completed their Round 1 projects may be penalised by not receiving their second round funding immediately. Specifically, the guidelines stated that:

Councils' Funding Agreements may not be available for execution until councils have completed and properly acquitted their projects under the original \$250 million allocated component of the RLCIP.

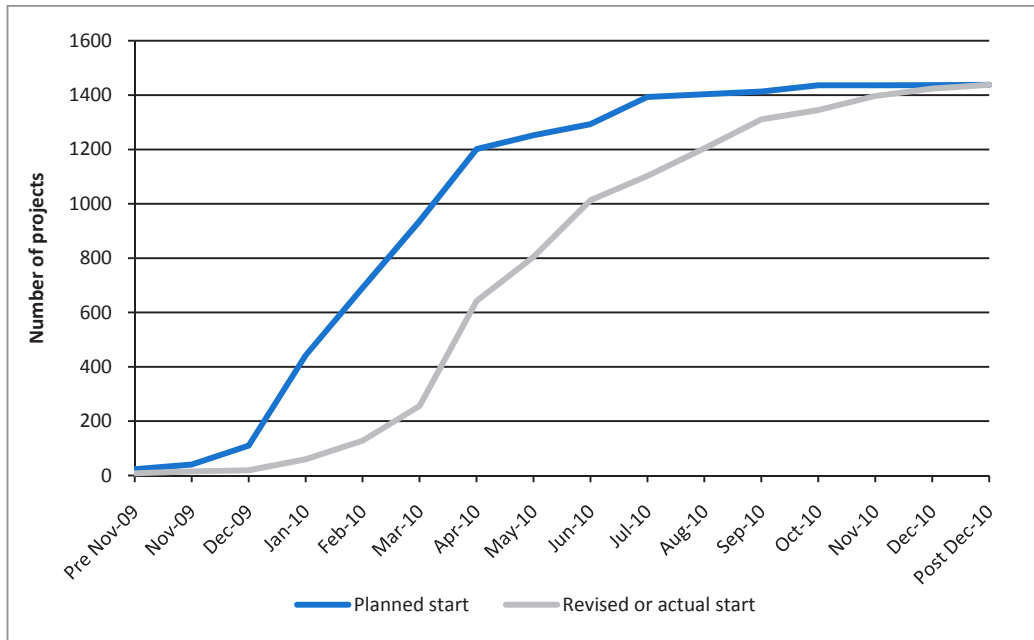
3.37 This approach had the potential to reduce the economic stimulus benefits of the program if it was implemented in respect to the relatively large number of councils that had yet to complete and acquit their Round 1 projects. As it eventuated, the department signed a funding agreement for Round 2

⁹² See further at paragraphs 2.54 to 2.59.

with 97 councils prior to them having submitted a final acquittal report for each of their Round 1 projects, with 83 payments (amounting to \$15.194 million) being paid prior to the final projects having been acquitted. Further, 42 funding agreements were executed with councils prior to any projects having been acquitted, with payments for 36 councils amounting to \$3.596 million being made prior to any final reports having been submitted.

3.38 Council performance in relation to project commencement dates and spending of their Round 2 allocation exhibited similar characteristics to that of the first round. In particular, rather than the approved projects proving to be 'ready to proceed', there was a considerable delay in work being reported as having started. In particular, and as illustrated by Figure 3.7:

- in their applications for the approved projects, councils had stated that 65 per cent of all projects would have commenced by March 2010 but, by this date, fewer than 18 per cent of approved projects had been reported as having actually commenced; and
- it was not until September 2010, some ten months after Round 2 applications closed, that the number of projects underway came within 10 per cent of the number that councils had forecast to have commenced.

Figure 3.7**Round 2 projects: planned and actual start dates reported by councils**

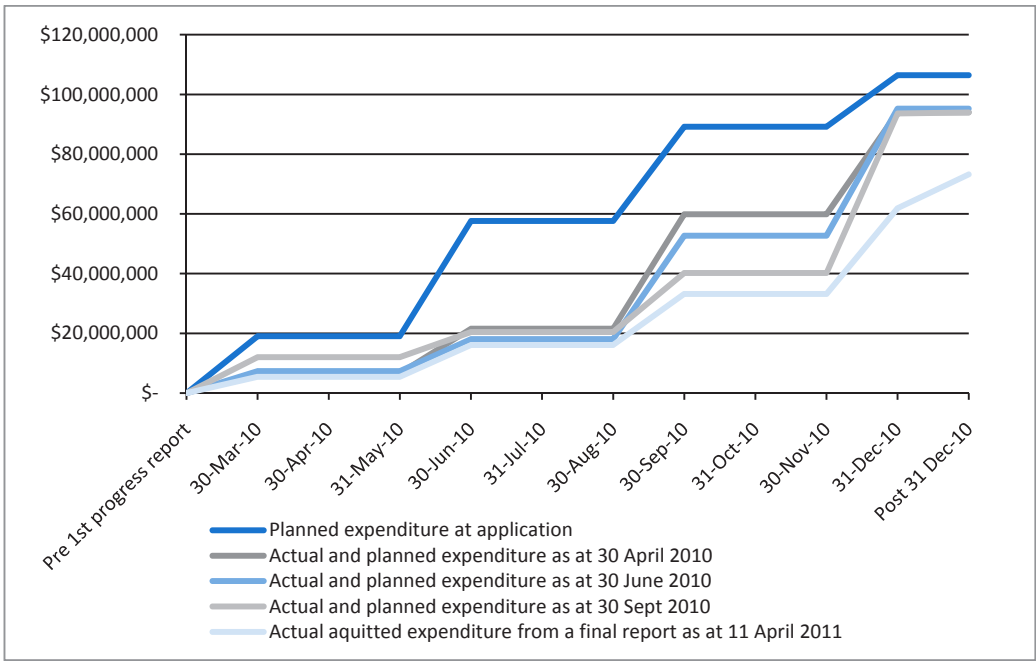
Source: ANAO analysis of RA data.

3.39 The delays in Round 2 projects commencing led to a significant consequential lag in the funds paid to councils being spent. In this respect, and as illustrated by Figure 3.8 and similar to Round 1, at each reporting date councils reported lower expenditure for the completed period than they had forecast, and revised downwards their forecast expenditure for the next period. Nevertheless, councils continued to forecast that the majority of projects would be completed, and funding be spent, by the due date of 31 December 2010 (see Figure 3.9).⁹³

⁹³ For example, in their applications for the approved projects, councils had forecast that they would have spent \$19.07 million by 31 March 2010 (19 per cent of the \$100 million). In the progress reports for the period ended 31 March 2010, councils had spent less than half this amount (expenditure of \$6.62 million was report to the end of March 2010), and had reduced their forecast expenditure for the next three months such that they now indicated that only \$21.56 million was expected to be spent by 30 June 2010 compared with the \$57.62 million that had been forecast in the applications that had been approved.

Figure 3.8

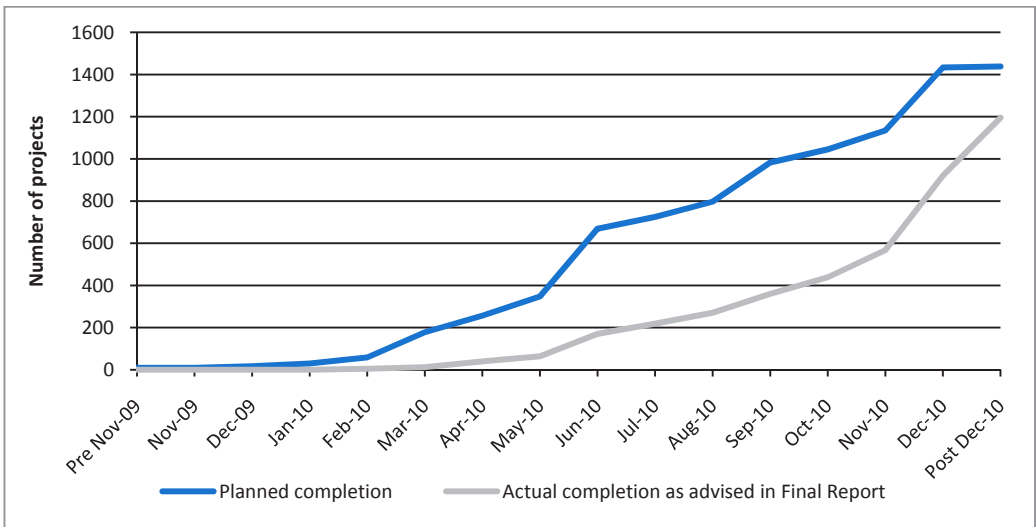
Round 2 projects: planned and actual expenditure reported by councils



Source: ANAO analysis of RA data.

Figure 3.9

Round 2 projects: planned and actual completion dates as acquitted by council



Source: ANAO analysis of RA data.

3.40 As mentioned at paragraph 3.13, as at mid-March 2011, final reports for 76 per cent of Round 2 projects (relating to 70 per cent of Round 2 funding) had been submitted to the department for acquittal. Some 61 per cent of projects had been reported as having been completed by the required date of 31 December 2010.

3.41 In March 2011, the department suggested to ANAO that natural disasters over the summer of 2010–11 may have played a role in delaying the completion of a significant number of Round 2 projects. In this respect, 300 councils (53 per cent) had been declared natural disaster areas between September 2010 and mid-March 2011 due to flooding, severe storms, bushfires and/or tropical cyclones. ANAO analysed the available data to identify whether these natural disasters had been a contributing factor for projects not being completed by the required date specified in the program guidelines. In total, of the 1 438 projects approved in Round 2, 641 projects (44.6 per cent) are located in a disaster declared area and were expected to be completed by 31 December 2010. Of these, 467 projects had been acquitted as at mid-March 2011 and reported as having been completed by 31 December 2010 (72.9 per cent).

3.42 Of the remaining 174 projects, 123 projects are located in areas that have been specifically affected by a natural disaster in the time period that could have impacted on delivery by 31 December 2010. However, these 123 projects only equate to 8.6 per cent of the total number of projects approved for delivery under Round 2. Accordingly, the primary reason for the delay in the delivery of projects by 31 December 2010 for the remaining 30 per cent of Round 2 projects to be acquitted does not appear to be as a result of the recent natural disasters.

Council progress with starting Round 3 projects and spending of Round 3 payments

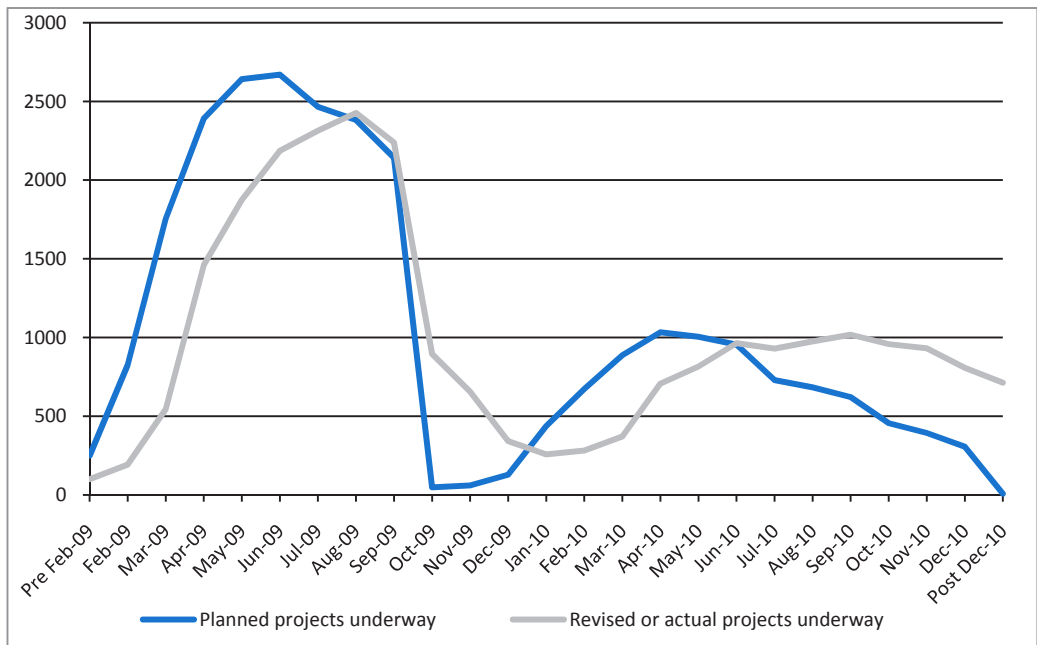
3.43 Applications for Round 3 funding closed on 31 July 2010, by which time all but 11 of the 3 220 approved Round 1 projects had been reported as complete, and all but \$2.7 million had been reported as spent. However, whilst the approved Round 2 applications had indicated that, by 31 July 2010, 97 per cent of Round 2 projects would have commenced and at least 57.6 per cent of funding spent, the delays in project progress experienced in Round 1 were being repeated in Round 2 (see Figure 3.10). In this context, and as noted at paragraph 3.19, the payment arrangements for Round 3 differed from the

earlier rounds for those councils with an allocation greater than \$200 000. These larger councils were to be paid in two instalments rather than a single upfront payment. In addition, the Round 3 program guidelines stated that funding may not be provided until councils:

- had completed and acquitted their projects under the Round 1 \$250 million allocated component of the RLCIP, including all reporting obligations for all completed projects;
- were performing to the department’s satisfaction under the Round 1 \$550 million Strategic Projects component of the RLCIP (if appropriate); and
- had signed a funding agreement for all previous RLCIP Rounds (\$100 million allocated component and \$120 million Strategic Projects component if appropriate) and submitted the first progress reports under the Round 2 allocation of \$100 million (due 31 May 2010).

Figure 3.10

Round 1 and Round 2 projects construction activity by month



Source: ANAO analysis of RA data.

3.44 The second progress report from councils in respect to their Round 2 funding was due on 31 July 2010, the date that Round 3 applications closed. Those progress reports showed that only \$18.1 million of Round 2 funding had been spent to 30 June 2010, considerably less than the \$57.62 million that had been forecast by councils in the approved applications. This figure was also 16 per cent lower than the revised forecast included by councils in their May 2010 progress reports.

3.45 Following the end of the caretaker period, the new Minister for Regional Australia, Regional Development and Local Government was advised that the incoming Government was not legally obliged to continue with Round 3. However, the Minister was further advised that:

Given the high expectation by all Local Governments and the resources they have expended in developing and submitting proposals, stakeholder reaction to any reduction or cancellation of expected funding will be strong. Similarly, any additional conditionality imposed by the new Government would not be welcomed.

3.46 In this latter respect, the department had advised the Minister that he could make funding available to councils on demonstration of achieved outcomes as this would 'provide greater incentive to Councils to achieve outcomes in the timeframes they proposed, reduce the risk of inappropriate expenditure of Commonwealth funds and provide savings through phased funding.' However, the departmental advice did not draw attention to the persistent significant delays in projects commencing and funding being used so as to inform decision-making in respect to the continuation of Round 3 or the merits of potentially delaying it. In particular, the Minister was not informed that there was a high risk that, rather than Round 2 projects and spending being completed by 31 December 2010 prior to Round 3 projects commencing in January 2011, it could be expected that there would be a considerable number of Round 2 projects yet to be completed, and Round 2 funds remaining to be spent.

3.47 The majority of Round 3 projects were assessed and approved by the department across September and October 2010, with the third progress report in respect to Round 2 due from councils on 31 October 2010. The October 2010 progress reports revealed that cumulative council expenditure for Round 2 had, again, significantly underperformed compared with the levels that had been forecast. Specifically, cumulative expenditure was reported as being \$40.24 million, some 24 per cent lower than the level forecast in the July 2010

progress reports. Nevertheless, councils collectively forecast that most projects would still be completed by 31 December 2010 and that more than half of the Round 2 funding (\$53.42 million) would be spent in the three months to 31 December 2010, with only \$318 067 forecast to be spent after this date. However, based on the 76 per cent of final reports submitted by mid-March 2011, only \$66.2 million had been expended in the period up to 31 December 2010, and some \$8.5 million had been reported as expected to be spent post 31 December 2010.

3.48 There is little doubt that these forecasts were informed by the requirement specified in the program guidelines for Round 2 that projects be completed with all funding spent by 31 December 2010. However, the nature of the projects approved for funding, the experience with Round 1 and typical construction economics⁹⁴ should have indicated to the department that this was unlikely.

3.49 As noted in ANAO's Administration of Grants Better Practice Guide, where demand for a grants program falls well below expectations:

it is unlikely that the program will be achieving the intended outcomes. In that circumstance, it is important for administering agencies to update demand forecasts based on appropriate data and market research, in order to provide budgetary and policy advice to government in relation to options for the reduction, amendment or cessation of the program.⁹⁵

3.50 However, the need for, the allocation approach, and the optimal timeframe for a further \$100 million of economic stimulus through a third funding round was not addressed by the department in its advice to the incoming government. In particular, there would have been benefit in the department examining whether:

- the funds allocated to councils that had not submitted applications for eligible projects by the closing date should be considered for return to the Budget as a savings measure;
- the allocation approach required adjustment so as to focus funding on those councils that had completed projects approved for funding under

⁹⁴ For example, the approved applications had indicated that nearly 90 per cent of Round 2 funding would be spent by 30 September 2010 with some 10 per cent in the final three months.

⁹⁵ ANAO Better Practice Guide, *Implementing Better Practice Grants Administration*, Canberra, June 2010, p. 64.

the earlier rounds and had met the deadline for nominating projects for Round 3 funding; and

- expanding the types of projects eligible for funding would have assisted councils to identify ready to proceed projects that could be nominated for funding.

3.51 As noted above in paragraph 3.24, councils were not asked to provide a forecast expenditure profile for Round 3 nominated projects as part of the application, although two progress reports were required to be submitted on 1 March 2011 and 1 September 2011. As many councils had not commenced construction on their Round 3 projects or had experienced delays in construction (in some cases due to recent flooding), the department deferred the first progress report in respect to Round 3 for a month (from 1 March 2011 to 1 April 2011). As at mid-April 2011, progress reports had been submitted for 75 per cent of approved Round 3 projects, covering \$76.8 million of Round 3 funding. Analysis of the progress reports showed that while 7 per cent of projects were reported as completed (with a value of \$2.6 million), 26.2 per cent of projects had not yet started (with a value of \$18.5 million). As at 1 April 2011, \$13.6 million of the Round 3 \$100 million allocation had been reported as spent.

3.52 In this context, a total of more than \$1 billion is to be available under the Regional Development Australia Fund over five years, commencing in 2011–12. Applications for the first \$100 million round close in May 2011, and the second round is expected to take place in late 2011. In relation to the timely commencement and completion of projects, the recently released guidelines for the Fund outline that:

- applications will be assessed, in part, on the demonstrated capacity of the proponent to deliver the project on time, within budget and according to the agreed outcomes; and
- funding should only be requested for projects that are 'investment ready' which is defined as being ready to proceed, including to commence construction within six months of signing the funding agreement, with all planning, rezoning, environmental and/or native title approvals in place.

Recommendation No.2

3.53 To promote the timely and effective delivery of community infrastructure programs, ANAO recommends that the Department of Regional Australia, Regional Development and Local Government regularly evaluate the need for, and the optimal timeframe of, subsequent rounds having regard to any delays with the commencement and completion of projects funded in earlier rounds.

RA response

3.54 RA agreed to the recommendation.

Conclusion

3.55 The establishment of the Council Allocation component, in the context of the emerging financial crisis and the need for a timely government response, meant that significant reliance was necessarily placed in the first round on the ability of councils to identify community infrastructure projects that could provide the desired economic stimulus, and to then deliver these projects in a timely manner.

3.56 The program guidelines for each round provided clear deadlines of when funding was to have been expended on approved projects. In addition, for the first two funding rounds, the program governance arrangements indicated that the department was interested in tracking expenditure by obtaining from councils with their application a forecast spending profile for each project and then requiring regular progress reports on actual expenditure (together with an updated forecast) as well as a final acquittal report at the completion of the project. Round 3 applications were not required to include a forecast expenditure profile, and the progress report requirements were not finalised until March 2011.

3.57 The progress reporting arrangements for the first two rounds have provided useful information for the department to monitor the performance of councils in using the funding in providing an economic stimulus through the spending activity of councils, and there would be benefits in this approach being consistently adopted (Recommendation No.1 refers).

3.58 By the time the second round of funding was announced, the department had started to become aware that projects were not proceeding as quickly as councils had forecast in their funding applications, and spending by councils was well below the level envisaged. However, it was not until the

latter part of 2009 that the full extent of delays in construction work (and associated stimulus spending by councils) became clear.

3.59 The experience of project delays and slower than expected expenditure was, in large part, repeated in the second funding round. In addition, there were considerable delays with councils being able to identify and put forward eligible project nominations for the third funding round, even after the application closing date was extended by some two months. However, the need for, the allocation approach, and the optimal timeframe in respect to, a further \$100 million funding round was not addressed by the department in its advice to the incoming government. As it eventuated, there have also been delays with Round 3 projects commencing construction and funds paid to councils being reported as having been spent.

3.60 Given the history of delays with councils delivering projects funded under the Council Allocation component, ANAO has recommended that:

- the monitoring of approved grants be improved by the department being more consistent in requiring grant applications to include a profile of planned expenditure, and revised expenditure profiles in progress reports, to promote informed monitoring of the timeliness of performance by funding recipients in spending grant funds; and
 - that the department regularly evaluate the need for, and the optimal timeframe of, subsequent rounds having regard to any delays with the commencement and completion of projects funded in earlier rounds. For example, this will be important in the administration of the various rounds of the Regional Development Australia Fund.
-



Ian McPhee

Auditor-General

Canberra ACT

18 May 2011

Appendices

Appendix 1: Formal Comments on the Proposed Report

Department of Regional Australia, Regional Development and Local Government

The Department of Regional Australia, Regional Development and Local Government notes the ANAO's audit of the Council Allocation Component of the Regional and Local Community Infrastructure Program provided to the department on 22 March 2011, pursuant to sub-section 19 (1) of the *Auditor-General Act 1997*.

The department acknowledges that the Council Allocation program audit report and the recommendations will assist us in our commitment to implementing better practices in grants administration.

It is important to acknowledge the Council Allocation program (Round One) was developed to administer funds to councils in order to boost jobs and stimulate the economy in response to the Global Financial Crisis in 2008. The department's role was to provide advice on the implementation and administration of allocated funds to councils, subject to the requirements of the *Financial Management and Accountability Act 1997*.

The department agrees with the ANAO's two recommendations and will put in place suggested changes in implementing future regional programs (including the current Regional Development Australia Fund).

The department notes the acknowledgement by the ANAO that the program was appropriately designed, and endorsed by government, to distribute funds across the nation. The department also acknowledges that further refinements to the monitoring processes will improve current administration of programs.

Glenys Beauchamp
Secretary

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