The Design and Conduct of the Third and Fourth Funding Rounds of the Regional Development Australia Fund

Department of Infrastructure and Regional Development

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Canberra ACT
27 November 2014

Dear Mr President
Dear Madam Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Infrastructure and Regional Development titled *The Design and Conduct of the Third and Fourth Funding Rounds of the Regional Development Australia Fund.* The audit was conducted in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit to the Parliament.

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

Yours sincerely

Ian McPhee
Auditor-General

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

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Audit Team
Tracey Bremner
Erica Sekendy
Amy Willmott
Nathan Kissick
Brian Boyd

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Abbreviations

ALP	Australian Labor Party
ANAO	Australian National Audit Office
CDGP	Community Development Grants Programme
CGGs	Commonwealth Grant Guidelines
DIRD	Department of Infrastructure and Regional Development (formally the Department of Infrastructure and Transport, restructured and renamed in September 2013 to reflect the gaining of responsibility for regional development, local government and services to territories)
DRALGAS	Department of Regional Australia, Local Government, Arts and Sport (formally Department of Regional Australia, Regional Development and Local Government), which was abolished in September 2013
EOI	Expression of interest
FMA Act	*Financial Management and Accountability Act 1997*
FMA Regulations	*Financial Management and Accountability Regulations 1997*
MRRT	Minerals Resource Rent Tax
NRF	Not Recommended for Funding
PGPA Act	*Public Governance, Performance and Accountability Act 2013*
RDA	Regional Development Australia
RDAF	Regional Development Australia Fund
RFF	Recommended for Funding
SFF	Suitable for Funding

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Summary and Recommendations

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Summary

Introduction

1.   The Regional Development Australia Fund (RDAF) was established in early 2011 as a nationally competitive, merit-based grants program with discrete funding rounds. RDAF was one of the initiatives established to deliver on the then Government's September 2010 agreement with the Independent Members for Lyne and New England.

2.   Four RDAF funding rounds were delivered between 2011 and 2013. Under the third and fourth rounds, which are the subject of this performance audit report, more than $226 million in grant funding was awarded to 121 capital infrastructure projects by the then Minister for Regional Services, Local Communities and Territories.[1] Most of the funding was awarded to sport and recreation projects or projects that were expected to be of economic benefit to the area in which they were located. Nearly 70 per cent of the total funding approved over the four rounds was for projects located in regional Australia, with a number of the other approved projects that were located in major cities also expected to provide some benefits to regional Australia.

3.   Administration of RDAF was initially allocated to the then Department of Regional Australia, Regional Development and Local Government, which became the Department of Regional Australia, Local Government, Arts and Sport (DRALGAS) in December 2011.[2] Since September 2013, following the change of government, RDAF has been administered by the Department of Infrastructure and Regional Development (DIRD).[3] In addition:

- the 55 Regional Development Australia (RDA) committees located across Australia played an important role in the expression of interest (EOI) process used to shortlist candidates for funding; and

- an advisory panel was responsible for assessing the individual and relative merits of eligible applications and recommending which

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1   The Hon Catherine King MP.

2   For ease of reference, the agency then responsible for the design and conduct of rounds three and four of RDAF is referred to as 'DRALGAS'.

3   For ease of reference, the agency consulted by ANAO for the purposes of the audit of rounds three and four is referred to as 'DIRD'. Similarly, agency records accessed by ANAO for the purposes of the audit are referred to as being 'DIRD records'.

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applications should be approved. The panel members were selected for their experience, knowledge and expertise on regional Australia. The panel membership remained the same across each of the four competitive RDAF rounds.

4. The panel's advice was provided to the then Minister by DRALGAS on 6 May 2013 for round three, and on 17 May 2013 for round four. Consistent with the program guidelines, the panel classified each eligible application into one of three categories:

- 'Recommended for Funding' (RFF). For round three, the panel categorised 95 applications as RFF and recommended to the Minister that those applications be awarded $38.3 million in grant funding. For round four, the panel categorised 34 projects as RFF and recommended to the Minister that those 34 projects be funded at a cost of up to $172.5 million. For each round, the panel provided the Minister with analysis of the geographical distribution of funding for recommended projects, as well as a list of the projects that were being recommended;

- 'Suitable for Funding' (SFF). The panel categorised as SFF:

    - 20 round three applications. Those applications were seeking $7.6 million in funding, which could have been accommodated together with the 95 applications categorised as RFF within the $50 million funding announced as being available. However, the panel did not recommend that those 20 applications be awarded funding because they were, in the view of the panel, not of sufficient quality; and

    - 19 round four applications that had sought $90.3 million in grant funding. Those applications could not have been accommodated within the $175 million in funding announced as available for round four and, in any event, the panel had concluded those applications were not of a high enough standard to be recommended for funding; and

- 'Not Recommended for Funding' (NRF). The panel included in this category 77 round three applications seeking $31.2 million in grant funding, and 106 round four applications seeking $628.0 million in grant funding.

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5. In May 2013 the Minister approved 79 projects for round three funding of $31.1 million from the $50 million available for allocation under that round. As illustrated by Table S.1, the approved projects were drawn from each of the three categories. By late June 2013 the Minister had awarded $195.2 million to 42 round four projects, again drawn from across the three categories (see Table S.1).

Table S.1:   Minister's funding decisions in rounds three and four

Applications in each category	Panel's funding recommendations	Minister's funding decisions
Round three		
95 applications in RFF	95 recommended for $38.3 million	67 approved for $26.1 million, other 28 applications rejected
20 applications in SFF	(none recommended)	3 approved for $1.5 million
77 applications in NRF	(none recommended)	9 approved for $3.6 million
Round four		
34 applications in RFF	34 recommended for $172.5 million	21 approved for $91.7 million, other 13 applications rejected
19 applications in SFF	(none recommended)	7 approved for $16.5 million
106 applications in NRF	(none recommended)	14 approved for $87.0 million

Source: ANAO analysis of DIRD records.

Audit objective, scope and criteria

6. The objective of the audit was to assess the effectiveness of the design and conduct of the third and fourth funding rounds of the Regional Development Australia Fund.

7. The scope of the audit included the processes by which proposals were sought and assessed and successful projects were approved for funding. The audit criteria reflected the financial and grants administration frameworks then in effect, including the Commonwealth Grant Guidelines (CGGs)[4], as well as ANAO's grants administration Better Practice Guide.

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4   The *Public Governance, Performance and Accountability Act 2013* and the *Commonwealth Grants Rules and Guidelines* took effect on 1 July 2014, after the third and fourth RDAF funding rounds were completed.

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Overall conclusion

8.   The Regional Development Australia Fund (RDAF) was introduced following the 2010 election as part of a $1.4 billion commitment to support the infrastructure needs and economic growth of regional Australia. The third and fourth RDAF funding rounds were conducted between October 2012 and June 2013. There was significant interest in the opportunity to compete for Australian Government funding, with more than 900 expressions of interest received, seeking over $2.5 billion in funding compared with the $225 million that was announced as being available. As it eventuated, more than $226 million in grant funding was awarded across the two rounds to support 121 capital infrastructure projects.

9.   The award of funding was undertaken through a two-stage application process that initially involved the 55 Regional Development Australia (RDA) committees shortlisting expressions of interest and assigning a priority to each project in their region, prior to full applications being submitted to the Department of Regional Australia, Local Government, Arts and Sport (DRALGAS, or 'the department'). Those applications were then assessed by the department, which included assigning each eligible application a rating against each selection criterion. Improvements in the quality of the department's assessment work, and of its application lodgement processes, were evident. An advisory panel, whose five members were selected for their experience, knowledge and expertise on regional Australia, was responsible for assessing the eligible applications and providing funding recommendations to the then Minister for Regional Services, Local Communities and Territories. The Minister made her funding decisions in May 2013 for round three and over May and June 2013 for round four.

10.   The assessment and selection process as it was described in the program guidelines reflected a sound approach. However, in the manner implemented, the stages were not well integrated in that each step informed the next in only a limited way. As a result, there was not a clear trail through the assessment stages to demonstrate that the projects awarded funding were those that had the greatest merit in terms of the published program guidelines. In particular:

- the order of regional priority allocated to projects by the RDA committees was not used by the department or the panel at any point

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in the assessment of applications, and was not provided to the Minister to inform her decision-making;

- the panel categorised applications as 'recommended', 'suitable' and 'not recommended', but its categorisation was not supported by a documented assessment, by the panel, of the merits of each eligible application in terms of the published selection criteria. Rather, the panel advised ANAO that it considered and applied the selection criteria 'in their entirety';

- the only recorded assessment of each eligible application against each of the published selection criteria was that undertaken by the department[5]; however a third of the applications awarded the highest possible rating against each selection criterion by the department were assigned to the lowest merit category by the panel;

- 27 per cent of the applications approved by the Minister, representing 48 per cent of total funding awarded, had not been included by the panel in the 'Recommended for Funding' category (as the panel did not consider them to be of sufficient quality). These applications represented:

    - 15 per cent of approved round three applications (and 16 per cent of approved round three funding) categorised by the panel as other than 'Recommended for Funding', three quarters of which had been categorised as 'Not Recommended for Funding' with the remaining quarter classified as 'Suitable for Funding'[6]; and

    - 50 per cent of approved round four applications (involving 53 per cent of approved round four funding) categorised by the panel as other than 'Recommended for Funding'. Two-thirds of

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5   The department's assessment of each application against the published selection criteria was provided to inform the panel. The panel advised ANAO that the department's assessment was one of a number of inputs to its assessment of applications and that, on occasion, the panel's assessment differed from the initial assessment undertaken by the department (but without these differences being recorded, or with the panel otherwise recording an assessment of each eligible application against the published selection criteria). The results of the department's assessment were also provided, along with the panel's categorisation of applications, to the Minister. In this context, the panel advised ANAO that it 'applied the selection criteria in their entirety, rather than going through an exercise for every project to consider each of the selection criteria individually.'

6   Specifically, there were three applications involving $1.5 million in the 'Suitable for Funding' category that were approved for funding, and nine applications involving $3.6 million in the 'Not Recommended for Funding' category that were approved for funding in round three.

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these applications had been categorised as 'Not Recommended for Funding' with the other third categorised as 'Suitable for Funding'[7]; and

- 56 per cent of those applications awarded funding had been assessed by the department to not satisfactorily meet one or more of the selection criteria.[8]

11. The absence of alignment or a clear trail between the assessed merit of applications against the published selection criteria and the rounds three and four funding decisions was a similar situation to that observed in ANAO's audit of the first RDAF funding round.[9] This shows that the recommendations made in the first audit, agreed by the department, had not been implemented by the department, and inadequate attention was given to relevant aspects of the grants administration framework. Effectively implementing agreed recommendations (which often reflect ANAO's experience of practices other departments have found to be beneficial) and closer adherence to identified principles of better practice grants administration are matters that warrant greater attention by the department. In light of the findings of this current audit, ANAO has made a further three recommendations to DIRD directed at:

- improving the efficiency of two-stage grant application processes;

- a more rigorous approach to assessing whether candidates for grant funding will provide value with public money; and

- improving the quality and clarity of advice provided to Ministers to inform their decisions about the relative merits of proposals competing for grant funding.

12. A further similarity between the third and fourth RDAF rounds and the first round was that a relatively high proportion of approved projects had not

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7   Specifically, there were seven applications involving $16.5 million in the' Suitable for Funding' category that were approved for funding, and 14 applications involving $87.0 million in the 'Not Recommended for Funding' category that were approved for funding in round four.

8   Further in this respect, applications assessed by the department to have satisfactorily met each selection criterion were 50 per cent more likely to be rejected than they were to be approved for funding.

9   ANAO Audit Report No.3 2012–13, *The Design and Conduct of the First Application Round for the Regional Development Australia Fund*, Canberra, 19 September 2012.

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been recommended for approval by the panel.[10] In each of the four rounds, the panel recommended that funding be approved only for those applications it had included in the 'Recommended for Funding' category. This reflected the design of the program, where the three categories to be used by the panel (see paragraph 4) were intended to distinguish between the assessed relative merit of groups of applications. In this respect, the published operating procedures for the panel required that applications categorised as:

- 'Recommended for Funding' have been assessed as meritorious, meeting the selection criteria to a high degree and having a strong positive impact on the region;

- 'Suitable for Funding' have been assessed to meet the selection criteria and have a positive impact on the region but are considered to be not as strong as those categorised as 'Recommended for Funding'; and

- 'Not Recommended for Funding' have been assessed as not strong and to have no identifiable positive impact on the broader community.

13.   However, the Minister has informed the ANAO that: she had been advised by the department, and was always of the understanding, that projects in both the 'Recommended for Funding' and 'Suitable for Funding' categories were available for selection; in choosing projects from both categories she was complying with the program guidelines; and she would have reported to the Finance Minister her decisions to award funding to an application included in the 'Suitable for Funding' category if she had believed that the panel had not recommended them for funding.[11] In this context, focusing solely on those applications approved for funding in the 'Not Recommended for Funding' category[12], the proportion of applications approved for funding against panel advice falls (from 27 per cent) but nevertheless remains significant (at 19 per cent of all applications approved, comprising 11 per cent of approved round three

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10   ANAO's audit of the first round had outlined that 'a feature of the projects approved for funding was that a relatively high proportion (40 per cent) had not been recommended for approval by the panel' (ANAO Audit Report No.3 2012–13, op.cit., p. 24).

11   By way of comparison, the Minister reported to the Finance Minister 22 of the 23 instances where she approved funding for an application categorised as 'Not Recommended for Funding' (see Table 6.1) with one instance not reported due to an administrative oversight by the department (see paragraph 6.13). This analysis supports the Minister's advice on her interpretation of the decisions that required reporting to the Finance Minister.

12   Applications were approved from the 'Not Recommended for Funding' category in RDAF rounds three and four only.

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applications and 33 per cent of round four applications). In terms of the proportion of funding approved, 40 per cent ($90.6 million) was awarded to applications categorised as 'Not Recommended for Funding' (comprising 11 per cent of the round three funding and 45 per cent of the round four funding awarded).

14. ANAO sought advice from the department on whether officers responsible for briefing the Minister on the outcome of the funding rounds had provided such advice to the Minister. In response, the department outlined to ANAO that it had: briefed the Minister that rounds three and four involved discretionary grant funding; identified the applications the panel had recommended be awarded funding (being those in the 'Recommended for Funding' category); and advised her that she should review the list of projects recommended and satisfy herself as to the benefits of each project and that, should she disagree with the recommendations and choose other projects, then the reasons for these decisions should be recorded.

15. Setting aside the different perspectives of the Minister and the department, the then Government's guidelines for this program provided for the advisory panel to make the recommendations to the Minister as to those applications that should be awarded funding. Further, the grants administration framework has been designed to accommodate situations where decision-makers do not accept the advice they receive. Amongst other things, it requires that the basis for funding decisions be recorded.[13] However, the records of the reasons for funding decisions taken contrary to panel advice generally provided little insight as to their basis and made no reference to the

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13   As outlined in ANAO's grants administration Better Practice Guide, where Ministers or other decision-makers agree with the agency funding recommendation they are able to point to the agency assessment and advice as representing the inquiries they made as required by the financial framework, so long as they are satisfied that the assessment was conducted with rigour and in accordance with the guidelines. Further in this respect, the Better Practice Guide outlines that:

- different conclusions can often legitimately be drawn from the same set of information and, where decision-makers form a contrary view to the agency recommendation based entirely on the inquiries and information contained in the agency assessment, it is necessary for the decision-maker to identify the basis for their alternative conclusion; and

- where decision-makers either fully or partly base a decision to approve a grant on information or advice that is additional to that considered in the assessment process, they will need to document, for retention within the records of the administration of the granting activity, the nature of that information (and, where relevant the inquiries that may have been undertaken to obtain it) and the manner in which it was taken into account in the decision-making process.

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published selection criteria.[14] This situation was particularly significant given that such decisions were largely at the expense of projects located in electorates held by the Coalition. Specifically:

- 80 per cent of Ministerial decisions to not award funding to applications recommended by the advisory panel related to projects located in Coalition-held electorates. This was most notably the case in round three, where 93 per cent of those recommended applications that were rejected were located in Coalition-held electorates. For round four, 54 per cent of recommended applications that were rejected were located in Coalition-held electorates; and

- 64 per cent of Ministerial decisions to fund applications that had been categorised by the panel as other than 'Recommended for Funding' related to ALP-held electorates[15] compared with the 18 per cent relating to Coalition-held electorates. Having regard to the Minister's advice to ANAO (see paragraph 13) that she viewed only those applications categorised as 'Not Recommended for Funding' as involving the approval of a not recommended application, 57 per cent of approved applications from this category related to ALP-held electorates compared with 17 per cent relating to Coalition-held electorates.[16]

16. Performance audits have been undertaken of each of the major regional grant funding programs introduced by successive governments over the last

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14 This situation was also similar to the first round, with ANAO's audit report observing that it was common for the decision-making records in that round to 'not directly relate to the published program criteria' (ANAO Audit Report No.3 2012–13, op. cit., p. 107). Further in this respect, in June 2009 the House Standing Committee had tabled its Final Report on its inquiry into a new regional development funding program with the Committee supporting the changes that had been made to the FMA Regulations in response to an ANAO recommendation requiring Ministers and other decision-makers to record the basis for their funding decisions. In particular, the Committee's report observed that accountability 'stresses the importance of ensuring that decisions made throughout the funding process are well documented and can be adequately explained.' (House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government, *Funding regional and local community infrastructure: Principles for the development of a regional and local community infrastructure funding program*, Final Report, June 2009, p. v.).

15 More specifically, projects located in ALP-held electorates comprised 67 per cent of round three decisions to fund applications that had not been categorised as 'Recommended for Funding', and 62 per cent of round four decisions to fund applications that had been categorised as other than 'Recommended for Funding'.

16 More specifically, 56 per cent of approved round three applications, and 57 per cent of approved round four applications, categorised as 'Not Recommended for Funding' related to ALP-held electorates compared with 22 per cent and 14 per cent respectively relating to Coalition-held electorates.

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eleven years.[17] Over this period, improvements have been observed in some important aspects of the design and implementation of regional grant programs. Nevertheless, in respect to each successive program there have been shortcomings in the design and administration of the assessment and decision-making processes, and indicators of bias in the awarding of funding to government-held electorates.

17. Such situations detract from the measures that have been implemented to date to make improvements to the grants administration framework, noting that it was experience with one of the earlier regional grant funding programs that was a catalyst for the introduction of the Commonwealth Grant Guidelines. More importantly, these situations detract from the ability of grant funding programs to deliver on their policy objectives to the extent practicable, and are detrimental to those communities that would have benefited had funding been awarded to those projects that had been assessed, in a structured way, to be the most meritorious in terms of the published program guidelines.

18. Against this background, a key message from ANAO audits of grant programs over the years, and highlighted in ANAO's grants administration Better Practice Guides[18], is that selecting the best grant applications that demonstrably satisfy well-constructed selection criteria promotes optimal outcomes for least administrative effort and cost. Another recurring theme in the ANAO's audits of grants administration has been the importance of grant programs being implemented in a manner that accords with published program guidelines so that applicants are treated equitably. Similarly, the grants administration framework was developed based, in part, on recognition that potential applicants and other stakeholders have a right to expect that program funding decisions will be made in a manner, and on a basis, consistent with the published program guidelines.[19] There is also an important

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17   Those audits have examined the award of 1276 grants with an aggregate value of more than $1.1 billion across Australia. These figures exclude programs established solely to fund election commitments, which do not operate through a competitive, merit-based application process. Given the nature of election commitments, funding distributions under these programs can be expected to favour the party elected to form government (see, for example, ANAO Audit Report No.24 2010–11, *The Design and Administration of the Better Regions Program*, Canberra, 27 January 2011).

18   ANAO Better Practice Guide, *Implementing Better Practice Grants Administration,* Canberra, June 2010, p. 7 and ANAO Better Practice Guide, *Implementing Better Practice Grants Administration*, Canberra, December 2013, p. 3.

19   *Strategic Review of the Administration of Australian Government Grant Programs*, 31 July 2008, p. 56.

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message here for agencies to underline this expectation in advice to Ministers so as to avoid any misunderstandings and promote informed decision-making.

19.   In this context, the most important message from this audit is that considerable work remains to be done to design and conduct regional grant programs in a way where funding is awarded, and can be seen to have been awarded, to those applications that demonstrate the greatest merit in terms of the published program guidelines. Ministers can show the way here by emphasising the importance of adhering to the published program guidelines, and discharging their responsibilities in accordance with wide considerations of public interest and without regard to considerations of a party political nature.[20] History shows that this is particularly important in the lead-up to a Federal election.

Key findings by chapter

Regional Development Australia Committees' Assessment of Expressions of Interest (Chapter 2)

20.   Compared with the one-stage process used in the first RDAF round, the two-stage application process used in later rounds improved the accessibility of the program, and was more cost-effective to administer. Proponents of 392 of the 918 EOIs submitted in rounds three and four were invited to lodge a full application. Further, consistent with the program's objective of funding projects that meet community priorities and needs, the majority (95 per cent) of these had been endorsed by an RDA committee as being a priority project for the community and/or region. Nevertheless, there were two design elements of the program that could have been further improved, namely:

- the results of the RDA committees' assessment of projects in terms of their individual and relative benefits to the community and/or region were not used in the assessment or selection of those same projects at full application stage, notwithstanding that these issues were directly relevant to two of the selection criteria and the program's objective; and

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20   In this context, in the forward to the 2013 version of the Commonwealth Grant Guidelines the then Finance Minister had stated that the Government is 'committed to ensuring that grant decisions are made in an equitable, transparent and accountable way'.

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- an assessment of project or applicant eligibility was not incorporated into the design of the EOI stage. This lead to a small number of proponents being invited to submit full applications only to be informed some months later that the applications were ineligible for reasons that could have been determined at the EOI stage.

Department's Assessment of Applications (Chapter 3)

21. Compared with predecessor programs, improvements in the quality of the department's assessment work were evident in the first RDAF round audited by ANAO, and this trend continued in the third and fourth funding rounds. This was particularly the case in relation to the eligibility checking and the conduct of risk assessments. In addition, the application lodgement and receipt processes were improved compared with those adopted in the first RDAF round.

22. However, there remained significant shortcomings in the methodology employed to assess the merit of competing applications in terms of the published selection criteria. DRALGAS had agreed to two recommendations made in ANAO's audit of the first funding round that were designed to address these shortcomings. However, instead of fully implementing these recommendations, the department retained:

- the same qualitative rating scale it had used in the first funding round, notwithstanding that it does not provide a clear and consistent basis for effectively discriminating between the relative merits of competing applications; and

- an unsound methodology for assessing value with public money that saw applications assessed as not satisfactorily meeting up to three of the four selection criteria identified as representing value with money. As has previously been observed by ANAO, applications that do not satisfactorily meet each of the published selection criteria are most unlikely to represent value with public money in terms of the objectives of the granting activity.

Panel's Assessment of Eligible Applications (Chapter 4)

23. The RDAF advisory panel was tasked with considering the individual and relative merits of 192 eligible applications in round three, and 159 eligible applications in round four, and with recommending the most meritorious to

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the Minister. DRALGAS provided the panel with information and secretariat support to undertake this role.

24.   Notwithstanding that the department and the panel had the benefit of two previous funding rounds to learn from, and the findings and recommendations of an ANAO performance audit of the first round, the methodology the panel had developed in August 2011 on the first day of its deliberations for the first funding round continued to be applied in May 2013 for rounds three and four. As a result, and notwithstanding that the program guidelines required the panel to assess and rank eligible applications based on the published selection criteria, there were no documented panel assessments of each application in relation to those criteria.

25.   As required by the program guidelines, the panel categorised each eligible application in each round as 'Recommended for Funding' (RFF), 'Suitable for Funding' (SFF) or 'Not Recommended for Funding' (NRF). The panel was also required by the published guidelines to rank those categorised as RFF and SFF in order of merit. The panel chose to rank large numbers of applications equally by grouping them into a small number of bands. This approach represented a marked decline in the degree of differentiation offered to the Minister compared to the first funding round. Specifically, in the first round the panel had individually ranked each application in the RFF category as well as the 39 highest priority applications in the SFF category.[21] For rounds three and four, the extent to which the Minister did not approve applications categorised by the panel as RFF was considerably higher than round one but the Minister did not have the benefit of applications in the SFF category being individually ranked so that it was not possible for her to work through those applications in the manner that had occurred in round one.

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21   It is not uncommon for some competing applications in a heavily subscribed grant funding round to be assessed as equally meritorious. The program guidelines recognised this, stating that all applications categorised as RFF and SFF would be ranked by the panel in order of merit and that more than one application may be assigned to a ranking. The likely extent of this was indicated by the guidelines then including the following advice: 'for example, three projects may be ranked as equal first' in the SFF group. However, assignment of applications to the same ranking group was significantly greater than had been indicated by the guidelines, as well as being significantly greater than has been observed by ANAO in other competitive, merit-based grant programs. For example, 66 eligible applications—a third of all those received in round three—were equally ranked. Further, all 34 of the applications recommended for funding in round four were presented as being indistinguishable in terms of their relative merit.

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26. The panel recommended that the Minister fund the applications it had categorised as RFF. In round three, the panel also proposed that a lower level of funding be provided for three of the 95 recommended applications, reducing the total amount required to $38.3 million. This represented a considerable shortfall compared with the available funding of $50 million. While it is important that only applications that will demonstrably provide value for the public money involved be recommended for funding, it was not clear from the panel records why none of the 97 applications remaining were considered to be of sufficient merit. Of note was that each of these 97 applications had proceeded through the EOI stage, having been endorsed as a regional priority by an RDA committee, and a number had then been assessed by DRALGAS as satisfactorily meeting the selection criteria.

27. In round four, the panel proposed that the grant amount be reduced for 12 of the 34 applications it had recommended. This reduced the total amount required to $172.5 million, down from the $201 million requested by the applicants. While the maximum grant value advised to applicants was $15 million in round four, the panel recommended that applicants be provided with a maximum grant of $10 million 'to ensure that both the impact and leverage of funds was maximised'. This figure was applied as a blanket cap to 25 of the applications categorised as either SFF or NRF by the panel, of which six were later approved for funding.

28. Similar with the first funding round previously audited by ANAO, there was not a clear trail between the applications ranked most highly against the selection criteria by DRALGAS and those recommended for funding by the panel. For example, half of the applications that had achieved ratings of 'well developed' against every selection criterion in round four were assigned by the panel to the lowest category in terms of merit. Instead, the majority of funding was proposed for relatively lower ranked applications (including ones rated 'poorly developed' against the two criteria assessing community and economic benefit to the region).

29. In these circumstances, while the panel viewed those projects it recommended as being of the highest quality, the approach the panel adopted to determining its recommendations was not consistent with a transparent, competitive, merit-based process to awarding grant funding in accordance with an assessment of applications against the published criteria. This situation reflects shortcomings in the overall design of the assessment process, particularly the insufficient linkages evident between the three assessment

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stages (shortlisting of EOIs by RDA committees; DRALGAS' detailed assessment of applications, including against the published selection criteria; and the advisory panel's deliberations and recommendations).

30.   Additionally, it reflects that the department's records of panel meetings exhibited similar inadequacies to those identified by ANAO in the audit of the first RDAF funding round. In particular, in a number of situations either no rationale for the panel's decision was recorded or the recorded comment did not clearly relate to the decision taken. As well as being inconsistent with its previous advice to ANAO that it would address the record-keeping shortcomings identified in the audit of the first funding round, the approach taken by DRALGAS contradicted the program guidelines which had stated that the rationale for the panel's decisions would be recorded. Overall, the approach taken did not support transparent and informed decision-making in the spending of public money through a granting activity.

Minister's Funding Decisions (Chapter 5)

31.   The enhanced grants administration framework has a particular focus on the establishment of transparent and accountable decision-making processes for the awarding of grants. Key underpinnings of that framework are that Ministers:

• not approve a proposed grant without first receiving agency advice on its merits relative to the relevant program's guidelines;

• record the basis of each approval, in addition to the terms of the approval; and

• report to the Finance Minister all instances where they approve grants that the relevant agency recommended be rejected.

32.   These requirements, together with other related enhancements to the grants administration framework, do not affect a Minister's right to decide on the awarding of grants. Rather, they provide for an improved decision-making framework such that, where Ministers elect to assume a decision-making role in relation to the award of grants, they are well-informed of the assessment of the merits of grant applications and suitably briefed on any other relevant considerations. The requirements also seek to promote transparency of the reasons for decisions.

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33. Against this background, the approach taken to advising the Minister as to which round three and four applications should be awarded funding had a number of significant shortcomings. In particular:

- applications were banded into a small number of categories[22], which offered the Minister limited assistance in terms of delineating the relative merits of competing applications;

- the briefing materials were voluminous[23], with insufficient summary material provided by the department. Such an approach makes it difficult for any decision-maker to compare the assessed merits of competing applications; and

- similar to the first round and notwithstanding the department agreeing to an ANAO recommendation that it enhance the documentation provided to the Minister to ensure assessment outcomes aligned with funding recommendations, the assessment of individual eligible applications against the published criteria (as recorded by the department and provided to the Minister) did not align with the panel's categorisation of applications.[24]

34. Funding decisions were taken in May and June 2013. For round three, 79 projects were approved for funding of $31.1 million, with the remaining $18.9 million (38 per cent) reallocated to regional infrastructure projects under round four. This meant that the award of funding did not deliver on the commitment to quarantine $50 million of RDAF funding for projects in small towns, notwithstanding the high level of participation by small towns in the program (440 EOIs had been submitted under round three, seeking $162.4 million).

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22 For example, the 95 applications the panel recommended for funding in round three were grouped into only three bands to denote their relative order of merit, while all 34 applications recommended in round four were presented as being equally meritorious. By way of comparison, the panel had individually ranked each of the recommended applications in round one.

23 The advice provided to the Minister on the individual merit of each application, including the ratings awarded against each selection criterion by DRALGAS, was contained within 'assessment snapshots'. These formed an attachment to the approval brief but were submitted separately in hard copy folders containing 192 one-page assessment snapshots for round three and 159 assessment snapshots (averaging six pages each) for round four.

24 For example, for some applications recommended by the panel, the Minister was at the same time advised that the application had been assessed as not adequately meeting one or more of the published criteria. Similarly, there were applications not recommended for funding by the panel where the Minister was provided with information indicating the application met each of the published criteria to a high standard.

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35. The Minister approved 42 projects for a total of $195.2 million in round four, compared with the $175 million that had been advertised as available under this round. In this respect, at funding approval stage, a total of $199.4 million was available. This comprised the original allocation of $175 million, $18.9 million reallocated from the underspend in round three and $5.5 million that became available following the early termination of a round one funding agreement.

36. A feature of the round three and round four decision-making was the lack of alignment with the assessment advice provided to inform those decisions. It is difficult to see such a result as being consistent with the competitive merit-based selection process outlined in the published program guidelines:

- only 53 (44 per cent) of the 121 approved applications had been assessed by the department as satisfying each of the published selection criteria.[25] Further, among those applications not approved were 79 applications seeking a total of $292 million that had been assessed as satisfying each selection criterion and as representing value with public money; and

- nearly half of the funding awarded (48 per cent) went to applications that had not been recommended by the panel and a third of recommended applications were not approved. Specifically, the Minister:

    – rejected 41 projects that had been recommended for funding of $93 million; and

    – approved $109 million in funding for 33 projects that had not been recommended by the panel.

37. It is open to a Minister to reach a decision different from that recommended. In such cases, it would be expected that the recorded basis for each decision would outline how the Minister arrived at a different view as to the application's merits relative to the published selection criteria. However, none of the recorded bases for the 74 decisions at odds with the panel's advice

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25   While the panel was responsible for providing funding recommendations to the Minister on the basis of its assessment of applications in terms of the published selection criteria, as noted at paragraph 4.40, the only recorded assessment of each eligible application against each of the published selection criteria was that undertaken by the department.

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directly referenced the selection criteria. Rather, the records tended toward generalised statements such as 'based on my knowledge and expertise I have judged this to have strong regional benefit'; an approach that does not sit comfortably with the grants administration framework which requires the basis for grant funding decisions to be recorded.

38. Further, in recording why she approved some of the applications not categorised by the panel as 'Recommended for Funding', the then Minister recorded that her reason was 'support panel recommendation', which was the same annotation made in relation to decisions to approve applications that the panel had recommended for funding. This approach was consistent with the Minister's advice to ANAO that: she viewed applications included in the 'Suitable for Funding' category as available for selection similar to those categorised as 'Recommended for Funding'; in choosing projects from both categories she was complying with the program guidelines; and she did not need to report the approval of applications categorised as 'Suitable for Funding' to the Finance Minister. However:

- the department advised ANAO that it had: briefed the Minister that rounds three and four involved discretionary grant funding; identified the applications the panel had recommended be awarded funding (being those in the 'Recommended for Funding' category); and advised her that she should review the list of projects recommended and satisfy herself as to the benefits of each project and that, should she disagree with the recommendations and choose other projects, then the reasons for these decisions should be recorded;

- ANAO's audit of the first RDAF funding round had outlined that the approval of funding for applications categorised as 'Suitable for Funding' involved, in the context of the grants administration framework, the approval of applications that the panel had 'recommended be rejected', and therefore should be included in the reporting of such instances to the Finance Minister;

- program governance documentation for rounds three and four, including the published guidelines and the published panel operating procedures, identified that the 'Suitable for Funding' and 'Recommended for Funding' categories were to comprise applications of differing merit. In this respect, advice to ANAO from the panel confirmed that it considered applications other than those in the

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'Recommended for Funding' category to be 'not of significantly high quality' and 'not of a high enough standard' to be recommended for funding; and

- the department's written briefings provided to the Minister, and the letters to the Minister from the panel in respect to each round, clearly identified that the panel was recommending for funding only those applications in the 'Recommended for Funding' category.

39. Nevertheless, the Minister's advice to ANAO highlights that the 'Suitable for Funding' descriptor was not a particularly helpful descriptor. This situation also underscores the benefit of DIRD, in future granting activities, providing a clear statement for each grant proposal to either approve or reject the proposal.

Transparency and Accountability (Chapter 6)

40. In a number of important respects, the conduct of the third and fourth RDAF funding rounds was not consistent with the accountability and transparency principles outlined in the grants administration framework. Of particular note was that:

- grants reporting and responses to Senate Estimates questioning has not disclosed the significant extent to which grant funding was approved in respect to applications that the panel had not recommended be funded;

- those unsuccessful applicants that had been recommended for funding were not provided with accurate and complete feedback; and

- the recording of reasons for funding decisions did not adequately explain how the preference evident for projects located in Australian Labor Party (ALP)-held electorates had resulted from a merit-based process. In particular, those projects had a much higher approval rate than those located in Coalition-held electorates.[26]

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26 Specifically, in round three the approval rate of eligible applications involving projects located in ALP-held electorates was 60 per cent compared with the 34 per cent approval rate for those in Coalition-held electorates, and in round four the approval rates were 32 per cent for projects in ALP-held electorates and 21 per cent for those in Coalition-held electorates.

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41.   In addition, experience with the third and fourth RDAF funding rounds also drew to attention a gap in one of the transparency and accountability mechanisms within the grants reporting framework. Specifically, where Ministers of the former government had approved grant applications the relevant agency had recommended be rejected in the months prior to the election, there is no obligation for there to be any reporting of those decisions.[27] By way of comparison, any decisions in a non-election year to award funding to not recommended applications is required to be reported.[28]

Summary of entity responses

42.   The proposed audit report issued under section 19 of the *Auditor-General Act 1997* was provided to DIRD. The proposed report was also issued to the then Minister for Regional Services, Local Communities and Territories and the members of the former RDAF advisory panel with an invitation to them to provide a formal response for publication. An extract of the proposed report, relating to the grants framework reporting requirements, was provided to the Department of Finance.

43.   A summary of DIRD's response to the proposed audit report is below, with the full responses provided by DIRD and the Department of Finance at Appendix 1. The then Minister and the former panel also provided responses to the proposed report. The then Minister's response, with related ANAO comments, is included at Appendix 2. The former panel also requested that an earlier submission that it provided to ANAO be published with its response. This material, with related ANAO comments, is included at Appendix 3.

Department of Infrastructure and Regional Development

I appreciate the ANAO acknowledgement:

- that the implementation of the two-stage application process improved cost effectiveness and accessibility;

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27   This meant that, notwithstanding the sensitivities around decisions to award grant funding to not recommended applications in the period prior to a Federal election, there was no requirement to report 33 RDAF grants or any grants approved by other Ministers between January and September of 2013 that an Australian Government agency had recommended be rejected.

28   In its response to the draft audit report (see Appendix 1), the Department of Finance advised ANAO that it would explore opportunities to improve grants reporting, including the reporting of decisions where there is a change of government, as part of the development of grants.gov.au (a whole-of-government grant advertising, lodgement and reporting system).

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- of the continued improvement in the quality of the Department's assessment work, in particular the significant improvements in relation to eligibility checks and risk assessments; and

- of the work undertaken to improve the application lodgement and receipt processes to reduce the burden on applicants.

I also acknowledge that the audit report will assist in the future delivery of my Department's grant programmes and undertake to consider the findings of the report in the ongoing development and management of programme implementation processes.

… The report has raised a number of significant issues that have been addressed through the Department's responses to the Issues Papers. I note that on some occasions the Department and ANAO have differing views on the issues raised in the report, however, I appreciate that both organisations are working to the same goal of providing effective grant programmes with consistent and transparent outcomes for Government.

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Recommendations

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

Recommendation No. 1

Paragraph 2.49

To improve the efficiency and effectiveness of any future two-stage grant application process, ANAO recommends that the Department of Infrastructure and Regional Development:

(a)   include an assessment of eligibility considerations as part of the design of the expression of interest stage so as to minimise the risk of ineligible applications being received and allow the second assessment stage to focus on merit considerations; and

(b)   minimise duplication of effort, and provide a clear line of sight through the assessment process, by drawing upon the results of the assessment of expressions of interest where there are similarities or inter-relationships between some of the shortlisting criteria for expressions of interest and the assessment criteria for full applications.

DIRD's response: *Agree.*

Recommendation No. 2

Paragraph 3.76

ANAO recommends that the Department of Infrastructure and Regional Development incorporate in the value with money methodology adopted in future granting activities an approach that reflects that applications assessed as not satisfactorily meeting the published merit assessment criteria are most unlikely to represent value with public money in terms of the objectives of the granting activity.

DIRD's response: *Noted.*

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Recommendation No. 3

Paragraph 5.61

To improve the quality and clarity of advice provided to decision-makers, ANAO recommends that in future advice on the merits of proposed grants where funding is to be allocated using a competitive merit-based selection process, the Department of Infrastructure and Regional Development provide advice that:

(a)   clearly and consistently establishes the comparative merit of applications relative to the program guidelines and merit criteria; and

(b)   includes a high level summary of the assessment results of each of the competing proposals in terms of their merit against the published criteria.

DIRD's response: *Agree.*

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Audit Findings

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1.   Introduction

This chapter provides an overview of the Regional Development Australia Fund and of the ANAO performance audit of the first funding round. It also outlines the objective, scope and criteria of the audit of funding rounds three and four.

Background

1.1   The Regional Development Australia Fund (RDAF) was a national grants program established in early 2011 to fund projects that supported the infrastructure needs and economic and community growth of Australia's regions. It was expected that nearly $1 billion would be allocated under the program through discrete funding rounds.

1.2   RDAF resulted from the Labor Government's 2010 agreement with Independent members Tony Windsor and Rob Oakeshott. Also in accordance with this agreement, the Department of Regional Australia, Regional Development and Local Government was established in September 2010. Its responsibilities included establishing and administering RDAF. The department was subsequently affected by two machinery of government changes. The first was in December 2011, when it became the Department of Regional Australia, Local Government, Arts and Sport (DRALGAS).[29] The second occurred in September 2013, following the change of government, when DRALGAS was abolished and administrative responsibility for regional development, local government and services to territories moved to the Department of Infrastructure and Regional Development (DIRD).[30]

Overview of the funding rounds

1.3   The first four rounds of RDAF were conducted between 2011 and 2013 and were open to applications from local government and eligible not-for-profit organisations. A total of $575.8 million was approved to fund 202 capital infrastructure projects across Australia. The amount approved per funding round is outlined in Table 1.1. A further two funding rounds were

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29   For ease of reference, the agency then responsible for the design and conduct of rounds three and four of RDAF is referred to as 'DRALGAS'.

30   For ease of reference, the agency consulted by ANAO for the purposes of the audit of rounds three and four is referred to as 'DIRD'. Similarly, agency records accessed by ANAO for the purposes of the audit are referred to as being 'DIRD records'.

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commenced but not completed. In both of these cases, non-competitive processes were used.

Table 1.1:   Applications and funding approved in rounds one to four

Funding round	Date round opened	Applications approved	Funding approved
Round one	3 March 2011	35	$149.7 million
Round two	3 November 2011	46	$199.8 million
Round three	26 October 2012	79	$31.1 million
Round four	26 October 2012	42	$195.2 million
Total		**202**	**$575.8 million**

Source: ANAO analysis of DIRD records.

Impact of the 2013 Federal election

1.4   By convention, during the period preceding an election for the House of Representatives the Government assumes a 'caretaker' role until the election result is clear or, if there is a change of government, until the new Government is appointed. The Department of the Prime Minister and Cabinet publishes guidance on the conventions and practices, which include that governments avoid entering into major contracts or undertakings during the caretaker period. In respect of applications that had been approved for RDAF funding, DRALGAS:

•   continued to execute funding agreements where the proponent had been sent a funding agreement for their signature and a formal letter of offer dated prior to the 2013 caretaker period commencing; and

•   continued to progress funding agreement negotiations with other proponents but the funding agreements were not finalised during the caretaker period.

1.5   The new Government was sworn in on 18 September 2013 and announced on 24 October 2013 that it would seek to repeal the Minerals Resource Rent Tax (MRRT). At the time RDAF was established, the funds to be appropriated had included $573 million that was subject to the passage of the MRRT and one of the new Government's MRRT-related measures was to discontinue RDAF. As a result, the funding for RDAF was reduced to that required to meet the existing commitments.

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1.6 At the time of the change of government in September 2013, 57 of the projects approved in rounds two to four of RDAF did not have a signed funding agreement. The fate of these projects became known on 4 December 2013 when the Government announced a new Community Development Grants Programme (CDGP) providing up to $342 million towards around 300 community projects across Australia. In addition to various Coalition election commitments and uncontracted projects from the Community Infrastructure Grants Program, these included the projects approved in rounds two to four of RDAF that did not have a funding agreement in place.

1.7 The applications approved for funding under RDAF that remained under RDAF, and those that transferred to CDGP as a result of the new Government's decision, are summarised in Table 1.2. Receipt of CDGP funding for the RDAF approved projects was subject to confirmation from the proponents that the project could continue according to the original scope and other agreed arrangements.

Table 1.2: **Applications approved under RDAF that continued to be supported following the 2013 change of government**

Funding round	Remained under RDAF		Included within CDGP	
	Applications	Approved under RDAF	Applications	Approved under RDAF
Round one	35	$149.7 million	Nil	Nil
Round two	44	$191.8 million	1[1]	$5.0 million
Round three	50	$19.0 million	29	$12.1 million
Round four	16	$70.0 million	26	$125.2 million
Round five	Nil	Nil	Nil	Nil
Round 5B	Nil	Nil	Nil	Nil
Total	**145**	**$430.5 million**	**56**	**$142.3 million**

Source: ANAO analysis of DIRD records.

Note 1: Another application approved under round two (for $3 million) did not have a funding agreement in place by the 2013 change of government. The proponent elected not to continue with the project and, therefore, it was not covered under CDGP and is not included in this table.

Previous ANAO audit activity

1.8 ANAO has undertaken performance audits of each of the major regional grant funding programs of successive governments, commencing with the then Coalition government's Regional Partnerships Program (at the

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request of the Senate Finance and Public Administration Committee).[31] The incoming Labor government's first major regional funding program, the Strategic Projects Component of the Regional and Local Community Infrastructure Program, was also audited.[32]

1.9   Similarly, ANAO undertook a performance audit of the first RDAF funding round; Audit Report No. 3 2012–13, *The Design and Conduct of the First Application Round for the Regional Development Australia Fund*. The audit concluded that, overall, the department's management of the design and implementation of the first application round was effective. However, a feature of the 35 projects approved for funding was the high proportion (14 projects or 40 per cent) that had not been recommended for funding by the panel. In addition, four of the projects the panel had recommended be awarded funding were not approved by the then Minister.

1.10   ANAO made three recommendations focused on further improving key elements of the application assessment and approval processes by the department:

- adopting a numerical rating scale for the merit assessment stage of future funding rounds;

- clearly outlining to decision-makers the basis on which it has been assessed whether each application represents value with public money in the context of the published program guidelines and program objectives; and

- improving the documentation provided to the Minister in respect to the assessment of individual eligible applications against the published selection criteria to promote a clear alignment between these assessments and the order of merit for funding recommendation.

1.11   DRALGAS agreed to all three recommendations, noting in its response to the audit that it would adopt the recommendations in round three and subsequent funding rounds.

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31   See ANAO Audit Report No. 14 2007–08, *Performance Audit of the Regional Partnerships Program,* Canberra, 15 November 2007.

32   See ANAO Audit Report No. 3 2010–11, *The Establishment, Implementation and Administration of the Strategic Projects Component of the Regional and Local Communities Infrastructure Program*, Canberra, 27 July 2010.

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Proposed ANAO audit of the second funding round

1.12 ANAO's audit work program published in July 2012 included a potential audit of the second RDAF funding round. However, given the findings of the ANAO audit of the first funding round and the department's advice to ANAO that implementation of the second RDAF funding round was similar in process, ANAO agreed to a request from the department that an audit of the second funding round not proceed. The ANAO informed the department that it would instead audit the third and fourth funding rounds.

Overview of rounds three and four

1.13 The program's objective had been revised for round two, and was revised again for rounds three and four when it became 'to support the economies and communities of Australia's regions by providing funding for projects that meet community priorities and needs'. The desired program outcomes were:

- investment in the regional priorities identified by local communities through Regional Development Australia (RDA) regional plans;

- sustainable regional economic development, economic diversification and increases to the economic output of local and regional economies;

- strong, dynamic and progressive regional communities which support social inclusion and 'Closing the Gap on Indigenous Disadvantage' and are underpinned by quality recreational, arts, cultural and social facilities; and

- Australian, state and local government, private sector and community partnerships to support investment in regional communities.

1.14 Rounds three and four were announced on 23 October 2012, with their respective guidelines concurrently released on 26 October 2012. There were differences between the rounds, particularly in terms of their demographic focus, grant size and available funding. Specifically:

- round three was to provide $50 million to support projects in towns with a population of 30 000 people or less with grants of between $50 000 and $500 000; and

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- round four was to provide $175 million for strategic regional infrastructure projects in regional Australia through grants of between $500 000 and $15 million.

1.15 DRALGAS continued the practice adopted in the second round of a two-stage application process, comprising a short expression of interest (EOI) followed by a 'full' application for invited proponents. EOIs for both rounds opened with the release of the guidelines and closed on 6 December 2012. DRALGAS then distributed these EOIs to the RDA committees to assess and rank in priority order by region. Each RDA committee was to select up to five priority projects under round three, and three priority projects under round four, to proceed to full application stage. In February 2013 the outcomes of the EOI stage were announced and the proponents of selected EOIs were invited to submit full applications.

1.16 DRALGAS was responsible for checking the full applications received for compliance with the eligibility requirements set out in the program guidelines. The department was also responsible for assessing eligible applications in terms of performance against the selection criteria, risk and value with money. The results of this assessment were provided to the RDAF advisory panel (panel) to inform its assessment and selection of projects for funding consideration.

1.17 The panel comprised five members selected for their experience, knowledge and expertise on regional Australia. The membership and role of the panel remained constant throughout the first four rounds of RDAF. The panel was to assess the individual and relative merits of eligible applications and provide advice to the then Minister for Regional Services, Local Communities and Territories on projects recommended for funding.

1.18 Under rounds three and four, projects needed to be for infrastructure related to or supporting the economy, community, arts and culture, or sport and recreation. The nature of the projects received against these categories was wide ranging. Those projects ultimately approved for RDAF funding were similarly varied, such as an upgrade to a bowling green, construction of a playground, expansion of an airport terminal, the construction of a new Indigenous art studio, development of an intermodal export freight precinct, and the construction of a youth and community centre.

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Round three

1.19 Round three was to support smaller towns and municipalities through funding projects which would 'improve liveability and sense of community'. Incorporated not-for-profit organisations with an annual average income of at least $500 000 and local government bodies were eligible to apply. Grants of between $50 000 and $500 000 were available. Unique to round three, projects needed to be located in a town with a population of 30 000 people or less.

1.20 Up to $50 million was available for allocation under round three. In summary:

- 440 EOIs were submitted seeking $162.4 million in funding;

- 216 EOIs seeking $84.7 million were invited to proceed to full application stage;

- 205 full applications were submitted seeking $82.4 million in funding;

- 95 eligible applications were recommended to the Minister by the panel for $38.3 million; and

- 79 applications were approved by the Minister for $31.1 million (including 67 of those recommended by the panel).

Round four

1.21 Round four sought to support strategic infrastructure projects, which could be located in any Australian town or city. Incorporated not-for-profit organisations with an annual average income of at least $1 million and local government bodies could apply. Applicants could request grants from $500 000 up to $15 million. At the time the round four program guidelines were released, $175 million was available for allocation. At funding approval stage, a total of $199.4 million was available. This comprised the original allocation, $18.9 million reallocated from the underspend in round three and $5.5 million following the early termination of a round one funding agreement.

1.22 In summary, under round four:

- 478 EOIs were submitted seeking $2.4 billion in funding;

- 176 EOIs seeking $1 billion were invited to proceed to full application stage;

- 163 full applications were submitted seeking $938.1 million in funding;

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- 34 eligible applications were recommended to the Minister by the panel for $172.5 million; and

- 42 applications were approved by the Minister for $195.2 million (including 21 of those recommended by the panel).

Audit objective, scope and criteria

1.23   The objective of the audit was to assess the effectiveness of the design and conduct of the third and fourth funding rounds of the Regional Development Australia Fund.[33]

1.24   The scope of the audit included the processes by which proposals were sought and assessed and successful projects were approved for funding.

Audit criteria

1.25   To form a conclusion against the audit objective, the ANAO adopted the following high-level criteria:

- application and eligibility assessment processes promoted open, transparent and equitable access to the available funding;

- the merit assessment process identified and ranked in priority order those eligible applications that best represented value with public money in the context of the program objectives and desired outcomes;

- the Minister, as decision-maker, was well briefed on the assessment of the merits of eligible grant applications, was provided with a clear funding recommendation and the reasons for the funding decisions

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33   There were distinct differences between rounds three and four of RDAF, with round three offering smaller grants for projects in small towns and round four offering larger grants supporting strategic regional infrastructure. Accordingly, originally ANAO envisaged conducting separate but concurrent audits. However, the findings against the audit criteria in each round were very similar and so the audits were combined and a single audit report produced.

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were transparent (consistent with the requirements of the broader financial framework and the grants administration framework[34]); and

- the distribution of funding in geographic and electorate terms was consistent with the program objectives and guidelines, and was consistent with funding being awarded on the basis of competitive merit.

1.26 The audit was conducted in accordance with ANAO auditing standards at a cost to the ANAO of $860 344. This cost represents the completion of the two concurrent audits of rounds three and four of RDAF (see footnote 33).

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34   The audit has referenced the grants framework that was in place at the time that the funding rounds were completed (this includes the *Financial Management and Accountability Act 1997* (FMA Act), *Financial Management and Accountability Regulations 1997* (FMA Regulations) and the Commonwealth Grants Guidelines (CGGs)). The framework changed after the funding rounds had been completed, with implementation of the grants-related elements of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) taking effect from 1 July 2014. In this respect, unless stated otherwise, similar arrangements exist under the current framework (PGPA Act and the Commonwealth Grants Rules and Guidelines (CGRGs)).

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Report structure

1.27 The structure of this report is outlined in Table 1.3.

Table 1.3: **Report structure**

Chapter	Overview
2. Regional Development Australia Committees' Assessment of Expressions of Interest	Provides an overview of the two-stage application process. It also examines the administration of the expression of interest stage and the role of the Regional Development Australia committees in the selection of priority projects to proceed to full application stage.
3. Department's Assessment of Applications	Examines the process for lodging full applications and for checking their eligibility. It also examines DRALGAS' assessment and ranking of eligible applications in terms of the selection criteria, risk and value with public money.
4. Panel's Assessment of Eligible Applications	Examines the RDAF advisory panel's assessment of eligible applications and its funding recommendations. It also addresses the provision of information to the panel by DRALGAS.
5. Minister's Funding Decisions	Examines the advice provided to the Ministerial decision-maker on the individual and relative merits of applications, and the funding decisions then taken.
6. Transparency and Accountability	Analyses compliance with the grant reporting requirements of Ministers, the provision of feedback to unsuccessful applicants and the distribution of funding awarded.

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2. Regional Development Australia Committees' Assessment of Expressions of Interest

This chapter provides an overview of the two-stage application process. It also examines the administration of the expression of interest stage and the role of the Regional Development Australia committees in the selection of priority projects to proceed to full application stage.

Introduction

2.1   A single-stage application process was used for the first funding round of RDAF, whereby the call for applications was open to all potential grant recipients. It attracted 553 applications seeking some $2 billion in funding. With only $100 million then available, the round was substantially oversubscribed. The allocation was subsequently increased to $150 million and funded the 35 successful applications.

2.2   Shortly after the outcomes of round one were announced, the chair of the RDAF advisory panel met with a range of applicants and other stakeholders to discuss their experiences and to identify improvements which could be made for round two. DRALGAS also encouraged stakeholders to give written feedback. Reflective of the applicant costs and frustration associated with the round one results of 63 per cent of applications being assessed as ineligible and 94 per cent being unsuccessful, stakeholder feedback supported the introduction of a two-stage application process for future rounds.

2.3   Stakeholders also called for a stronger role for RDA committees in the program. Taking on a stronger role was consistent with the origins of RDAF, which was to deliver on an agreement to fund infrastructure projects identified by the RDA committees in regional areas.[35]

2.4   Reflecting the feedback received, a two-stage application process was used for rounds two, three and four of RDAF. The first stage involved submission of a brief expression of interest (EOI), with each RDA committee

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35   Agreement between the Leader and Deputy Leader of the Australian Labor Party and the Independent Members for Lyne and New England, 7 September 2010, p. 8.

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given responsibility for assessing the projects predominately located in its region. The highest priority projects in each region were then to be invited by DRALGAS to submit full applications and compete for funding.

2.5   Against this background, ANAO examined the processes adopted for the lodgement of EOIs in rounds three and four and the assessment of EOIs by the 55 RDA committees.

Lodgement of expressions of interest

2.6   The third and fourth funding rounds of RDAF were run concurrently, but were otherwise discrete rounds with their own criteria, processes and program guidelines. Both sets of program guidelines were released on 26 October 2012, with EOIs to be emailed to DRALGAS by 6 December 2012. Local governments and eligible not-for-profit organisations could submit one EOI in each funding round, so long as they were for different projects. Each round also had its own EOI form, which was available from the department's website. As intended, the EOI form required substantially less resources to complete than a full application.

2.7   There were 440 EOIs submitted under round three and 478 EOIs submitted under round four. The EOIs were registered by DRALGAS and then on-forwarded to the relevant RDA committee. A reconciliation process was undertaken to ensure that the EOIs had been successfully received by committees.

2.8   RDA committees were to assess the EOIs according to the processes described below. However, modified arrangements applied to the assessment of EOIs for projects located on Norfolk Island and in the Greater Western Sydney region. These arrangements are explained in paragraphs 2.25 to 2.29.

Assessment of expressions of interest by RDA committees

2.9   The program guidelines set out the process by which RDA committees were to assess the EOIs and select those to proceed to full application stage. DRALGAS also provided a suite of supporting documents to assist the committees in their role. These included guidance on maintaining probity and managing potential conflicts of interest, with RDA committees also given access to an independent probity adviser. Ad hoc guidance, updates and

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reminders were provided via notifications published by DRALGAS on the members-only section of the RDA website and via email correspondence.

Assessment and selection methodology

2.10 Each RDA committee was to assess the EOIs received for projects located in its region against the criteria (set out in Table 2.1) for the relevant funding round.

Table 2.1: **Criteria for assessing expressions of interest**

Round three EOI criteria	Round four EOI criteria
Level of community support.	
Capacity to commence the project within 12 months of signing the funding agreement and complete the project by 31 December 2016.	
Local government priorities, as expressed in strategic or community plan or other published document.	Priority in the RDA committee's regional plan.
Capacity of the project to address needs in the town and neighbouring towns.	Capacity of the project to address needs in the region.
[No equivalent to round four criterion.]	Impact of the project on the region and neighbouring regions, with endorsed projects coming from across the region, rather than a single town, locality or local government area.

Source: ANAO analysis of the published program guidelines.

2.11 In summary, the assessment and selection methodology was as follows:

- each member of the RDA committee was to assign a score out of 10 to each EOI, taking into account the criteria at Table 2.1 above—the higher the score, the more the project met these criteria and the stronger the benefits to the region;

- the scores assigned by each member were to be tallied to produce a total score for each EOI[36];

- the EOI with the highest total score was to be allocated priority one, and so on until each EOI had been allocated a priority;

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36 Where a member had a conflict of interest and so could not assign a score to a particular EOI, then the average of the other members' scores was to be used in the tally.

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- members were to discuss the results, and adjust them as appropriate, to produce a final order of priority endorsed by the RDA committee; and

- up to the five highest priority projects in round three, and the three highest priority projects in round four, were to be selected by the relevant committee to be invited by DRALGAS to submit full applications.

Provision of results to DRALGAS, and departmental use of the results

2.12   According to the program guidelines, RDA committees were required to 'advise the department of the outcome of their deliberations, including the rationale for their decisions'. A 'scorecard' template was provided for this purpose. Each RDA committee was to submit a completed scorecard for each funding round. At a minimum, the scorecard was to include the priority ranking and underlying rationale for each EOI assessed and was to identify those selected to proceed to full application stage.

2.13   As was required, each RDA committee submitted to the department a scorecard that identified the EOIs it had selected to proceed to full application stage. Beyond this, the level of detail varied. Some RDA committees reported more information than had been requested, such as by providing the scores assigned by each committee member. Conversely, some RDA committees provided less than the minimum requested. For example, the submitted scorecards for 12 per cent of EOIs in round three, and for 20 per cent of EOIs in round four, did not record the rationale for the committee's decision.

2.14   The missing information was not then sought by DRALGAS. In explanation, DIRD advised ANAO in July 2014:

> … the rationale for decisions and the priority allocated to projects was not used by the Department in its assessment process …

> Given that RDA Committee prioritisations were not intended to be used by the Advisory Panel or the Minister in their decision making process and to reduce the compliance burden on RDA Committees, the Department did not seek information on the rationale for selection.

2.15   A result of the department not collecting such information was less accountability and transparency over the EOI process. Of particular significance in terms of the efficiency of the design of the funding rounds, was DIRD's advice to ANAO that DRALGAS had not intended to use the results of

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the RDA committees' assessment at EOI stage in the assessment of those same projects at full application stage.

2.16   Rather, the only element of the assessment results used by DRALGAS was the list of projects selected in each region. In correspondence with ANAO, DIRD described the assessment undertaken by the RDA committees as being 'a filter process'. Further that 'this process was to reduce the compliance burden on applicants and ensure that only projects which met regional priorities proceeded to the second stage of the application process'.

2.17   However, without diminishing the importance of their 'filtering' role, there would have been benefits if the priority rankings and rationale provided by RDA committees had been used to inform the assessment and selection of those same projects at full application stage. For example, their assessment of the capacity of round three projects to address needs in the town could have informed DRALGAS' subsequent assessment of the extent to which the project would provide community benefit (see paragraph 3.37 in this regard).

2.18   While the filtering process ensured that the projects considered at full application stage were regional priorities, the projects had not been assessed as providing equal benefits to the region. Rather, the projects in each region had been ranked in order of their relative priority. Following the completion of round two, some stakeholders had expressed concern about the apparent lack of alignment between these relative priorities and the funding outcomes. Feedback to DRALGAS included that 'RDA recommendation on the top three priorities were seen to be ignored when lower ranked projects received funding affecting their standing with stakeholders'. Also that 'the Advisory Panel is a black box and the Guidelines should include how RDA priorities are dealt with as part of its deliberations'. A stronger degree of alignment between the relative order of priority determined by RDA committees and the funding recommendations and outcomes would have been desirable in the context of achieving the program outcome of 'investment in the regional priorities identified by local communities through RDA regional plans'.

2.19   The design of rounds three and four did not, however, address the above concerns about alignment. As the priorities assigned by RDA committees were not used in the full application stage, whether a round three

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project, for example, had been ranked first priority or fifth priority in its region had no influence on the assessment or selection process.[37]

Provision of assessment results to proponents

2.20   Following receipt of the scorecards from the RDA committees, DRALGAS notified all proponents of the outcome of the EOI process by email on 13 February 2013. It also published a complete list of EOIs on its website, identifying which ones had been selected to proceed to full application stage.

2.21   Proponents of selected EOIs were invited by DRALGAS to submit a full application by 27 March 2013 for round three funding and by 11 April 2013 for round four. They were directed to the web-based application form and supporting documentation.

2.22   DRALGAS also advised proponents that feedback on the relative strengths and weaknesses of their EOI could be obtained from the relevant RDA committee. Those proceeding to the second stage could also receive this feedback but the RDA committees were not to assist them in the preparation of full applications. The department issued guidance to RDA committees on providing feedback but was not otherwise involved.

Review of the assessment results and processes

2.23   The RDA committees' decisions on the priority projects were final and there was no modification or review by DRALGAS. Giving RDA committees a high degree of autonomy was consistent with their responsibility for the RDA regional plans and the expectation that they had relevant knowledge of the priorities in their regions.

2.24   RDA committees were required to retain all documentation relating to the assessment and ranking process, including all working documents and minutes of meetings. The round two program guidelines had stated that DRALGAS would 'review and audit the process followed by RDA committees

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37   There was also not a strong alignment between the priorities identified by RDA committees in Round 5B of RDAF and the funding decisions taken. RDA committees had been asked to nominate up to three priority projects in each region from among those unsuccessful in earlier rounds. A total of 159 projects seeking $727.2 million were nominated. On 1 August 2013 the then Minister approved $199 million for 45 projects under round 5B, of which only half was for projects that had been nominated by the RDA committees. The round did not proceed following the 2013 change of government.

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to ensure consistency and compliance'. Similarly, in rounds three and four, a 'frequently asked questions' document stated 'RDA committees should also note that the department will review processes and record-keeping in relation to the assessment of EOIs'. However, DIRD advised ANAO in February 2014 that an audit of RDA committees' compliance with the intended EOI process in rounds two, three or four of RDAF had not been undertaken.

Assessment of expressions of interest from Norfolk Island and Greater Western Sydney

Norfolk Island

2.25   The program guidelines explained that, given Norfolk Island was not covered by an RDA committee, the Administration of Norfolk Island was permitted to submit one EOI and application in each of rounds three and four. The Administration of Norfolk Island elected to submit an EOI under each of the funding rounds. The EOIs were automatically progressed through to the next stage of the process without assessment. The Administration of Norfolk Island submitted full applications for its proposed projects, both of which were ultimately approved for funding by the Minister.

Greater Western Sydney

2.26   The RDA committee and the RDA regional plan for Sydney covered 41 local government areas, including the 14 local government areas collectively known as Greater Western Sydney. The RDAF program guidelines for rounds three and four outlined that RDA Sydney was to assess all EOIs for projects located in Greater Western Sydney and then select the priority projects to proceed under each round. This was to be undertaken as a separate exercise from its assessment and selection of EOIs from elsewhere in the Sydney region.

2.27   In the third funding round, five EOIs from Greater Western Sydney were received, assessed and ranked in order of priority by RDA Sydney. All five were selected to proceed to full application stage. Two of these applications were recommended for funding by the panel but they were not approved by the Minister on the basis that there was 'not sufficient local benefit compared to other projects'.

2.28   There were 20 EOIs received from Greater Western Sydney in round four seeking grant funding of $117.7 million. RDA Sydney assessed and ranked them in order of priority, and then selected the three highest priority

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projects to proceed. However, a decision was later taken by the then Minister[38] to invite the proponents of all EOIs from Greater Western Sydney to submit a full application. This meant that an additional 17 proponents from Greater Western Sydney were invited to compete for round four funding, bringing the total invited to 20 compared with a maximum of three proponents from each of the 55 RDA regions.

2.29   While no more than three projects from Greater Western Sydney were ultimately recommended or approved for funding, the decision to allow the additional 17 EOIs to proceed affected the outcome for the round, including the ability of projects that had been shortlisted by RDA committees to secure funding. Firstly, none of those recommended or approved for funding had been selected by RDA Sydney to proceed. Secondly, when the Ministerial decision-maker[39] decided not to approve two of those recommended on the basis of 'not sufficient regional benefit compared to other projects', she had additional applications from Greater Western Sydney to select from. This culminated in Greater Western Sydney receiving the most funding of any region in round four ($19.8 million) and the equal highest number of applications approved (Melbourne East also had three approved).

Eligibility assessment of expressions of interest

2.30   Notably absent from the design of the EOI stage was any assessment of eligibility. Eligibility was to be assessed at full application stage only. This same design had been used in round two, in which 27 applications (18 per cent) were assessed as ineligible. Some stakeholders had expressed their concerns about the timing of the eligibility assessment in round two and posed a variety of solutions. Feedback to DRALGAS had included: 'there should have been a filtering process prior to the RDA EOI stage to remove ineligible projects'; and 'the Department should consider eligibility first then refer to RDAs to prioritise'. Alternatively, that 'RDAs need to be able to look more closely at eligibility'. Feedback from the panel included the 'need for step in process where priority projects chosen to proceed to full application are

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38   The Hon Simon Crean as then Minister for Regional Australia, Regional Development and Local Government.

39   The Hon Catherine King MP as then Minister for Regional Services, Local Communities and Territories.

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assessed by the Department for eligibility and advice provided on how to address eligibility related issues that might exist'.

2.31 The lessons learned from round two, as identified by departmental officers, included that 'RDA committees selected projects which were ineligible due to their nature or the status of the applicant'. The proposed solution was to 'consider allowing basic eligibility assessment by RDA committees to ensure three eligible projects from each RDA area are selected for full application'. However, the recorded action taken by DRALGAS in response was 'In Rounds 3 and 4, the Department will continue to assess eligibility of projects after the EOI process and a full application has been made'.

2.32 An example of the approach taken in rounds three and four is DRALGAS' handling of two EOIs that it had identified as being ineligible on lodgement. The applicant had submitted an EOI under round three and an EOI under round four for the same project, whereas the program guidelines stipulated that the EOIs 'must be for different projects'. The record of the department's decision included:

> The Guidelines do not give the Department the capacity to review EOIs upon receipt for eligibility, nor do they set out any consequences if the requirements of the Guidelines are not met.
>
> … The two EOIs should be sent to the RDA committee, per the process set out in the Guidelines. It is the responsibility of the RDA to consider each EOI, take external knowledge into account, and select the projects to proceed to full application.[40]

2.33 Further, while DRALGAS had advised RDA committees that 'concerns about eligibility should be noted in the committee's advice to the Department on the outcomes of its assessment process', the process did not involve the department then reviewing or otherwise acting on the eligibility concerns raised. For example:

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40 Neither EOI was selected for progression to full application stage. The RDA committee recorded against the round three EOI that 'This project was not considered due to its ineligibility due to a number of issues with the EOI mostly the organisation's turnover', and against the round four EOI that 'This project was considered ineligible by the committee as it was the same project received in Round 3 and the Round 3 application was received first'.

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- an RDA committee had noted the following concern against a selected EOI: 'Concerns regarding eligibility as part of project is feasibility study (not capital)'; and

- the department invited that proponent to submit a full application, which it then assessed as being ineligible for funding as it was 'not considered to be capital in nature'.

2.34 Reasons for DRALGAS' decision not to include an assessment of eligibility at EOI stage, as advised to ANAO by DIRD, included that that it 'would have added a significant time burden, which could not be accommodated in the revised timing schedules'. However, the department had not been informed of the shortened timeframe until well after the EOI stages of rounds three and four had been completed (see paragraph 4.5).

2.35 Another reason given was that 'the information provided in the EOI was not sufficient to support a complete assessment of eligibility'. However, when ANAO examined the records of DRALGAS' eligibility checking process, the information departmental assessors used from full applications to check compliance with three of the four eligibility criteria had also been requested at EOI stage.[41] It was only eligibility criterion 3 ('The project and applicant must have been nominated by the RDA committee') that was unique to stage two.

2.36 DIRD also gave reasons for DRALGAS not allowing RDA committees to undertake a basic eligibility assessment to ensure that only eligible projects proceeded to the full application stage. These included:

> Assessment of eligibility by RDA Committees would have increased their workloads significantly. There were also questions about the
>
> - skills, experience or expertise of Committees and staff to complete eligibility assessments; and
>
> - the resources of Committees to complete such an assessment, either in employed personnel or funds required to contract expertise to the Committee.

2.37 It eventuated that some of the EOIs selected to proceed in rounds three and four did not fulfil the eligibility requirements. The proponents were invited to submit a full application only to be informed some months after

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41   The four eligibility criteria are summarised in Table 3.1.

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investing the time and resources that it was not eligible for funding consideration. This included 13 applications assessed by DRALGAS as being from ineligible organisations, for ineligible projects or for projects in ineligible locations.[42] Feedback to the department from an applicant assessed as having an ineligible project location, and which had provided the same population data in its EOI as in its full application, was that it considered eligibility should be checked at the EOI stage.

2.38 Where the basis for ineligibility could have been identified at EOI stage, delaying the eligibility check until after full applications are submitted causes unnecessary costs for applicants. As there was a cap on the number of EOIs that could be selected per region, it also adversely affects the opportunity for their region to otherwise compete for the available funding by submitting eligible applications.

Eligibility assessment by RDA committees

2.39 DRALGAS had explicitly advised the RDA committees that they did not have a role in assessing the eligibility of EOIs and that they should accept the applicant's certification that they can meet all eligibility criteria on face value. However, DRALGAS contradicted this by advising the RDA committees to consider clear examples of ineligibility in their prioritisation of EOIs.

2.40 That RDA committees did consider eligibility matters as part of their assessment and selection of EOIs was evident from the scorecards they submitted to the department. The recorded rationale for not selecting particular EOIs to proceed included, for example:

- The committee felt an issue stood with regards to eligibility as the project is 50% complete.

- Members agreed it did not meet the income criteria and felt the project was ineligible.

- Based on census data, Prospect Vale is considered part of the greater Launceston municipality therefore this project is ineligible.

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42 A further four applications were assessed as ineligible on the basis that they had been lodged after the closing date and time. The checking of applications for compliance with the eligibility requirements is examined in Chapter 3 at paragraphs 3.6–3.22.

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- The committee had some issues with the eligibility of the project, although a small township it is located in the Toowoomba Regional Council Area.

- Ineligible, annual income not disclosed.

2.41 The risks associated with the approach taken are not limited to ineligible EOIs proceeding to full application stage. In particular, RDA committees may have decided not to select an eligible EOI based on an incorrect interpretation of the eligibility criteria. The likelihood of this risk occurring was increased by DRALGAS' position of not assisting RDA committees with tailored advice on the eligibility of individual projects.

2.42 For example, one of the RDA committees asked for assistance in determining whether an EOI met the round three requirement that 'projects must be located in a town with a population of 30 000 people or less'. The committee provided a map and sought clarification as to whether, for the purposes of RDAF, the particular location was considered a town in its own right (and so eligible) or a suburb of the city (and so ineligible). The department did not advise on the eligibility of the location but rather reinforced the position that:

> RDA committees do not have a role in assessing the eligibility of projects or proponents … However, committee members may find clear examples of applicants not meeting the eligibility criteria in their consideration of EOIs, for example … a Round Three project may be located in a large metropolitan centre. Committees should consider any concerns about eligibility in their discussions and their prioritisation of EOIs …

Results of the expression of interest stage

2.43 The filtering process undertaken at the EOI stage reduced the number of potential grant recipients by more than half. Specifically:

- there were 440 EOIs submitted under round three seeking total funding of $162.4 million. The proponents of 216 of these EOIs (49 per cent) seeking $84.7 million were invited to proceed to full application stage. While this may appear to be a sufficient pool of applications from which to allocate the $50 million available, ultimately only $31.1 million was awarded. The success rate for full applications was 39 per cent in round three; and

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- in round four, there were 478 EOIs submitted seeking a total of $2.4 billion. The proponents of 176 of these EOIs (37 per cent) requesting $1 billion in funding were invited to submit full applications. At that time $175 million was available for allocation and so, even with a two-stage process, the round was oversubscribed.[43] It eventuated that 26 per cent of full applications were successful in being approved for funding. While that still left three-quarters unfunded, it represents a substantial reduction in potentially wasted effort by applicants compared with the six per cent success rate that resulted in round one.

Conclusion

2.44   A two-stage application process was used in rounds three and four, which improved the cost effectiveness for potential applicants and the administering agency compared with the one-stage application process adopted in the first funding round.

2.45   The first stage involved an open invitation to potential applicants to submit a short EOI. The network of 55 RDA committees was given responsibility for assessing the 918 EOIs submitted. Each committee was to select up to its five highest priority round three projects, and up to its three highest priority round four projects, to proceed to the full application stage.

2.46   The proponents of 216 EOIs (49 per cent) were invited to submit full applications in round three and the proponents of 176 EOIs (37 per cent) were invited in round four. The majority of those invited to proceed (95 per cent) had been endorsed by an RDA committee as being a priority project for the community and/or region.[44] Accordingly, the process was consistent with the RDAF objective of funding projects that meet community priorities and needs.

2.47   Achieving this objective would have been further enhanced if the information collected from RDA committees at EOI stage had then been used to inform the assessment and selection of projects at full application stage. Specifically, the regional priority assigned to each EOI by the RDA committees

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43   The funds available for round four projects later increased to $199.4 million, comprising the original $175 million allocation, $18.9 million reallocated from an underspend in round three and $5.5 million following the early termination of a round one funding agreement.

44   The five per cent of EOIs invited to proceed that had not been selected by an RDA committee were the two EOIs from Norfolk Island and 17 of the EOIs from Greater Western Sydney.

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and supporting rationale was not used to inform the subsequent assessment of full applications.

2.48 The design of rounds three and four involved eligibility not being assessed until the full application stage. This approach led to a small number of proponents being invited to submit full applications only to be informed some months later that their application was ineligible for reasons that could have been determined at EOI stage. DRALGAS had also advised RDA committees that, while they were not to assess eligibility, they should take eligibility matters into consideration; an approach that was difficult to apply. The recorded rationale for committee decisions indicates that eligibility matters influenced the selection of EOIs to be invited to lodge an application. The approach taken was not transparent to applicants and did not support an accurate and equitable application of the eligibility criteria.

Recommendation No.1

2.49 To improve the efficiency and effectiveness of any future two-stage grant application process, ANAO recommends that the Department of Infrastructure and Regional Development:

(a)   include an assessment of eligibility considerations as part of the design of the expression of interest stage so as to minimise the risk of ineligible applications being received and allow the second assessment stage to focus on merit considerations; and

(b)   minimise duplication of effort, and provide a clear line of sight through the assessment process, by drawing upon the results of the assessment of expressions of interest where there are similarities or inter-relationships between some of the shortlisting criteria for expressions of interest and the assessment criteria for full applications.

DIRD's response:

2.50 *(a) Agree to the assessment of eligibility be undertaken in stage one when a two-stage application process is undertaken unless there is an administrative or resource burden.*

2.51 *(b) Agree where there is alignment.*

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3. Department's Assessment of Applications

This chapter examines the process for lodging full applications and for checking their eligibility. It also examines DRALGAS' assessment and ranking of eligible applications in terms of the selection criteria, risk and value with public money.

Introduction

3.1   The proponents of projects selected at EOI stage were invited to compete for funding at full application stage. DRALGAS emailed the invitations on 13 February 2013, with full applications to be lodged by 27 March 2013 for round three funding and by 11 April 2013 for round four funding. On 6 March 2013, an additional 17 proponents from Greater Western Sydney were invited to submit full applications under round four by 24 April 2013 (see paragraph 2.28 for further information).[45]

3.2   In total, DRALGAS invited:

- 216 proponents to apply in round three, of which 205 (95 per cent) lodged applications requesting grants totalling $82.4 million; and

- 176 proponents to apply in round four, of which 163 (93 per cent) lodged applications requesting a total of $938.1 million.

3.3   In this context, ANAO examined the lodgement of full applications for funding in rounds three and four, as well as DRALGAS':

- checking of each application received against the published eligibility criteria;

- assessment of each eligible, compliant application against the published selection criteria and in terms of associated risk and value with public money; and

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45   In addition, on 15 April 2013 DRALGAS gave a round four applicant an extension to 24 April 2013 after it was identified that the department had sent the invitation to the wrong email address. This applicant therefore had a period of only nine days in which to lodge a full application compared with the 57 days afforded other applicants.

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- ranking of eligible applications by merit based on the assessment results, which was undertaken by the department to inform the work of the advisory panel.

Lodging full applications

3.4 For the first round of RDAF, applicants were to complete an online application form and upload supporting documents via DRALGAS' grant management system portal. However, applicants experienced significant difficulties in providing an application in the requested format and by the advertised closing date.[46]

3.5 For the second funding round, DRALGAS made considerable changes to the process for completing and lodging applications. Further refinements were introduced for rounds three and four of RDAF, which were to the benefit of both applicants and program administrators. While many applicants still required technical assistance, the overall result was a substantially improved process for the lodgement and receipt of applications compared with the first funding round.

Checking eligibility

3.6 Eligibility criteria (also known as 'threshold' or 'mandatory' criteria) are the criteria that an application must satisfy in order to be considered for funding. They play an important role in attracting good, potential grant recipients and in encouraging those unlikely to be successful not to invest unnecessary resources in preparing an application. The eligibility criteria used in rounds three and four of RDAF are summarised in Table 3.1.

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46   For more information, see ANAO Audit Report No.3 2012–13, *The Design and Conduct of the First Application Round for the Regional Development Australia Fund*, Canberra, 19 September 2012, pp. 42–45.

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Table 3.1: **Eligibility criteria in rounds three and four of RDAF**

Criterion	Round three	Round four
1	The applicant must be an eligible organisation.	
2	The application must be for an eligible project in an eligible town.	The application must be for an eligible project.
3	The project and applicant must have been nominated by the RDA committee.	
4	The project must be viable and sustainable.	

Source: ANAO analysis of the published program guidelines.

3.7 DRALGAS checked all full applications for compliance with the eligibility criteria and with other mandatory requirements set out in the program guidelines. For example, the requirement to lodge applications by the closing date and to request funding of between $50 000 and $500 000 in round three, or between $500 000 and $15 million in round four.

3.8 The eligibility checking arrangements were generally sound. The exception was in relation to criterion 4, where the department did not seek to satisfy itself that projects were viable and sustainable but instead relied upon an applicant declaration to this effect. As the declaration was a mandatory component of the application form, none were assessed as ineligible against this criterion.

Results of the eligibility check

3.9 DRALGAS assessed 13 applications (six per cent) as being ineligible in round three, and four applications (two per cent) as being ineligible in round four. In total:

- five applications were assessed as ineligible on the basis of being 'submitted more than an hour after close with no extenuating circumstances';

- three were assessed as being from ineligible organisations;

- six were assessed as being for an ineligible project, as it was not predominately capital in nature; and

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- four were assessed as being for an ineligible location under the round three requirement that projects be in a town with a population of 30 000 people or less.[47]

3.10 However, the number of project proposals excluded from competing for funding in rounds three and four due to eligibility considerations was higher than the above results suggest. As outlined in Chapter 2, in lieu of an eligibility check being incorporated into the design of the EOI stage, some RDA committees took eligibility considerations into account when prioritising projects. For example, documentation submitted to DRALGAS by one RDA committee indicates that it considered six projects to be ineligible at EOI stage.

3.11 Nevertheless, the rounds three and four results represent a considerable improvement on the round one results of 348 applications (63 per cent) being assessed as ineligible.

Eligible project locations

Round three requirements

3.12 Unique to round three, the eligibility criteria specified that projects be located in a town with a population of 30 000 people or less. This requirement was integral to achieving the policy objectives underpinning the Government's decision to direct round three funding to small towns. Therefore, ensuring this was clearly explained to potential applicants was in the interest of attracting quality projects likely to fulfil those policy objectives.

3.13 The program guidelines described the characteristics of an eligible town as follows:

> Small towns are located in rural, remote, regional and peri-urban areas and must have a population 30,000 people or less. Applicants should demonstrate that their town (including peri-urban areas) meets this requirement through the provision of population data from either the Australian Bureau of Statistics, state or territory government, a university or other independent body.

3.14 A more detailed description of eligible towns was provided in a frequently asked questions document that was published on the department's website. Nevertheless, the number and nature of queries received by

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47   One of these applications had also been assessed as ineligible due to late lodgement.

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DRALGAS about this requirement indicated that the program documentation did not sufficiently assist entities to form a view as to whether or not their project would be eligible prior to investing resources in developing an application.

3.15 Many potential applicants found it difficult to determine whether particular locations were eligible and how to best verify population numbers. For example, towns with a transient population and towns that could be either eligible or ineligible depending on the data source chosen. Also, whether locations on the outskirts of large towns would be considered eligible 'peri-urban' areas, defined in the program guidelines as being 'an area immediately between the suburbs and countryside'. As one applicant explained to DRALGAS when asking whether a particular town of less than 10 000 people would be considered ineligible because it shared a post code with a larger town, 'our staff are suffering from time pressure at the moment, and we do not want to go ahead and fill out the detailed EOI without a specific answer to this question'.

3.16 The standard departmental response to such questions was unhelpful in that it stated that 'given competitive assessment process is underway for Round Three, the Department is not able to provide advice on eligibility of particular towns'. In this context, DIRD advised ANAO in July 2014 that:

> The Department's approach of not responding to individual queries was based on the principles of equity and fairness. Had advice been provided on a particular application, that proponent may be given an unfair advantage within a competitive process.

3.17 However, compliance with the eligibility requirements is not a comparative, competitive issue but a threshold issue as to whether individual applications should continue in the selection process. Accordingly, there was no competitive advantage to be gained from knowing whether or not DRALGAS would assess a particular town as being an eligible project location.

3.18 Eligibility criteria should be straightforward, easily understood and effectively communicated. This not only helps potential applicants avoid the frustration and unnecessary costs associated with submitting an ineligible application, it also helps assessors apply the criteria consistency. However, departmental records indicated that considerable judgement needed to be exercised when determining the eligibility of proposed project locations. For example, the recorded basis for assessing:

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- Leopold, an outer suburb of Geelong, as being an eligible project location was: 'Leopold appears to be a separate town or peri urban area east of Geelong'; whereas

- Berkeley, an outer suburb of Wollongong, as an ineligible project location was:

  Gazetted Locality is Berkeley evidenced by Geographical Names Board Extract. Combined with Warrawong and Windang the population is 26,649 however the broader Wollongong LGA which encompasses Port Kembla, Wollongong and Thirroul has a population of 192,418. Using google maps there is no clear boundaries between these localities and while the suburb is separately identified it appears to be one area effectively a suburb of Wollongong City.

3.19 An example of a more definitive approach to identifying eligible project locations was that used for the 2011 funding round of the Liveable Cities Program.[48] The program guidelines clearly explained that projects had to be located in one of the 18 major cities with populations in excess of 100 000 according to 2011 Australian Bureau of Statistics data. The eligible locations were defined by local government area boundaries, and a list of the eligible areas was attached to the guidelines. In response to queries, departmental staff used this information to advise potential applicants whether or not their proposed project location would be eligible. There were 170 applications received and all were assessed as compliant with the project location requirements.[49]

Round four requirements

3.20 All towns and cities in Australia were eligible under round four. However, the program guidelines advised that 'projects located in a capital city must demonstrate how the project will benefit the broader region'. Further that 'projects located [in] peri-urban areas of a capital city are exempt from this requirement'. Campbelltown in Sydney and Dandenong in Melbourne were presented as examples of exempt locations.

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48   The Liveable Cities Program was established in 2011 and administered by the then Department of Infrastructure and Transport. Following the change of government in September 2013, it became the Liveable Communities Programme and administered by DIRD.

49   For more information, see: ANAO Audit Report No. 1 2013–14, *Design and Implementation of the Liveable Cities Program,* p. 54.

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3.21 The eligibility requirement was implemented through the functionality of the electronic application form. The 34 applicants (21 per cent) that had self-identified their project as being located in a capital city were required by the application form to explain how their project would benefit the broader region and to list the RDA and/or local government areas that would benefit. There was no associated check relating to the content or validity of that information undertaken by DRALGAS as part of the eligibility assessment process.

3.22 There was no requirement that regional Australia be a beneficiary of the projects located in capital cities. That is, the 'broader region' could be limited to other areas within the capital city. For example, $4 million was approved for a project to 'provide Belmore residents with a new multicultural arts facility as well as an upgrade to the sporting grounds', for which the applicant listed only the neighbouring area of Ashfield in Sydney as being the broader regional beneficiary. This was notwithstanding that the Minister's introduction to the program guidelines stated that round four 'provides $175 million in grants to strategic infrastructure projects in regional Australia' or that RDAF originated from an agreement to support the infrastructure needs and economic growth of regional Australia.[50]

Consortium arrangements

3.23 Eligible applicants were local government bodies and incorporated not for-profit organisations with an average annual income of $500 000 or more for round three funding, or of $1 million or more for round four funding. Ineligible organisations could not submit applications in their own right but could participate as a member of a consortium led by an eligible applicant.[51]

3.24 There are risks associated with consortium arrangements that agencies need to identify at the design stage and manage throughout a granting activity's life-cycle.[52] These include the risk that organisations will use a consortium arrangement to bypass the eligibility requirements. As it is expected that the eligibility requirements will reflect the policy objectives of

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50 See further at paragraph 6.36 of Chapter 6.

51 Excluding RDA committees, which were not eligible to apply in any circumstances.

52 Potential risks and treatments relevant to consortium type arrangements are discussed in: Australian Government Solicitor, Legal Briefing 99, *Commonwealth Grants: An Overview of Legal Issues*, 14 May 2013, pp. 12 and 15.

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the granting activity, it is questionable whether having an ineligible party as the key beneficiary of the funding would fulfil those objectives.

3.25 DRALGAS' register of lessons learned from round two of RDAF identified that the 'consortium policy allows ineligible parties to have eligible organisations act as a front for projects to which they are only a minor (or non) beneficiary or partner'. The action proposed by departmental officers was: 'confirm policy position on consortiums to ensure Program intent is not undermined though a loophole'. However, the proposal was not adopted and the consortium provisions remained unchanged for rounds three and four.

3.26 Consequently, some applications proposed arrangements whereby the lead applicant would enter into a funding agreement with the Commonwealth and then pass funding on to an ineligible organisation, which would undertake the RDAF project and own the resulting asset. The arrangement was allowable under the program guidelines and no specific treatments were in place to manage the associated risks. Against this background, there would be benefit in DIRD identifying and managing the risks associated with third-parties undertaking Commonwealth funded infrastructure projects.[53]

Assessment against the selection criteria

3.27 Selection criteria (also known as 'assessment criteria' or 'merit criteria') are the criteria against which all eligible, compliant applications are assessed in order to determine their merits against the granting activity's objectives and, for competitive activities like RDAF, other competing applications. Soundly-based selection criteria provide an effective link between the objectives of the granting activity and the outcomes achieved through the grants awarded. The selection criteria for rounds three and four are summarised in Table 3.2.

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53   In the context of managing risks associated with third-party involvement in infrastructure projects, see also: ANAO Audit Report No. 1 2013–14, *Design and Implementation of the Liveable Cities Program*, pp. 127–128; ANAO Audit Report No. 7 2011–12, *Establishment, Implementation and Administration of the Infrastructure Employment Projects Stream of the Jobs Fund*), pp. 188–190; and ANAO Audit Report No. 14 2007–08, *Performance Audit of the Regional Partnerships Programme*, Volume 2, pp. 154–156.

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Table 3.2: **Selection criteria in rounds three and four of RDAF**

Criterion	Round three	Round four
1	The extent to which the project will provide community benefit.	The extent to which the project will contribute to and sustain regional economic growth.
	AND/OR	AND
2	The extent to which the project will support the local economy.	The extent to which the project will provide community benefit.
3	The extent to which the applicant leverages additional funding, including from a variety of sources.	
4	The extent to which the applicant is unable to otherwise fund the project (for projects which are normally the responsibility of local government or state and territory governments only).	

Source: ANAO analysis of the published program guidelines.

Rating scale

3.28 In order to be able to rank applications, it is important that the scale used to rate applications against the selection criteria allows the agency to effectively and consistently differentiate between applications of varying merit. For the first funding round, DRALGAS used an ordinal scale with the qualitative descriptors 'well developed', 'developed' and 'poorly developed'. In the audit report on that round, ANAO noted that the use of qualitative ordinal scales makes it inherently more difficult to arrive at an overall rating for each application and to differentiate the relative merits of applications. This difficulty was exacerbated in the context of RDAF because of the varying number of selection criteria assessed across applications.[54] ANAO outlined the relative benefits of numerical scales and recommended (Recommendation No. 1) that:

> To provide a more efficient and effective means of differentiating between eligible applications in terms of their overall claims against the published assessment criteria, ANAO recommends that the Department of Regional Australia, Local Government, Arts and Sport, in consultation with the Regional Development Australia Fund advisory panel, adopt a numerical rating scale for the merit assessment stage of future funding rounds.[55]

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54   ANAO Audit Report No.3 2012–13, op. cit., pp. 59–60. Guidance on the method and scale applied in rating and ranking applications is also provided in the ANAO Better Practice Guide, *Implementing Better Practice Grants Administration*, Canberra, December 2013, pp. 61–63.

55   ANAO Audit Report No.3 2012–13, op. cit., p. 66.

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3.29 DRALGAS agreed to implement Recommendation No. 1. However, the department did not then adopt a numerical scale when assessing applications against the selection criteria in rounds three or four. Instead, the department applied the same qualitative ordinal scale it had used in round one. The ratings as recorded in the department's registry file for each application, in the department's grant management system, and in the 'assessment snapshot' of each application provided to the panel and to the Minister, remained in the form 'well developed', 'developed' and 'poorly developed'.[56]

3.30 To facilitate the ranking process described at paragraphs 3.59 to 3.61, DRALGAS later assigned a number to each rating point. In July 2014, DIRD suggested to ANAO that this process was 'consistent with the ANAO's recommendations'. However, changing a descriptor from 'well developed' to '3' after the assessment of applications against the selection criteria has been completed and the results provided to the panel, does not adequately satisfy the intent of the ANAO recommendation to 'adopt a numerical rating scale for the merit assessment stage of future funding rounds'. In particular, the shortcomings observed in relation to the round one approach remained evident in the third and fourth rounds.

3.31 The distribution of ratings awarded to eligible applications in round three is at Figure 3.1 and in round four is at Figure 3.2. These figures illustrate that:

- most applicants were assessed as meeting to a high level the third criterion relating to the leveraging of additional funding; and

- performance against the other criteria was more mixed.

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56   A rating of 'poorly developed' meant that it had been assessed as not satisfactorily meeting the criterion. Where criterion 4 did not apply to a specific application, then the term 'not applicable' or 'N/A' was recorded in place of a rating.

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Figure 3.1:   Distribution of ratings awarded by criterion in round three
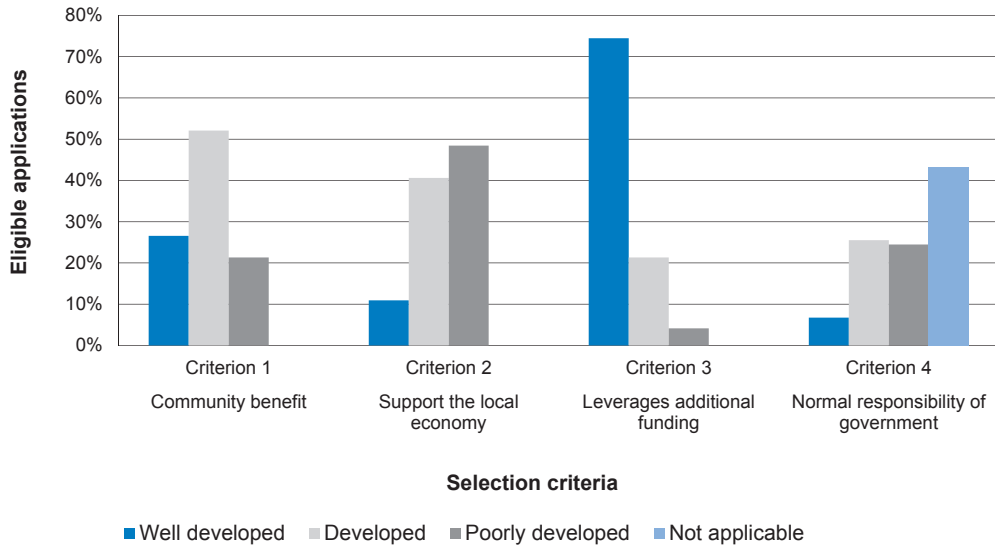
Source: ANAO analysis of DIRD records.

Figure 3.2:   Distribution of ratings awarded by criterion in round four
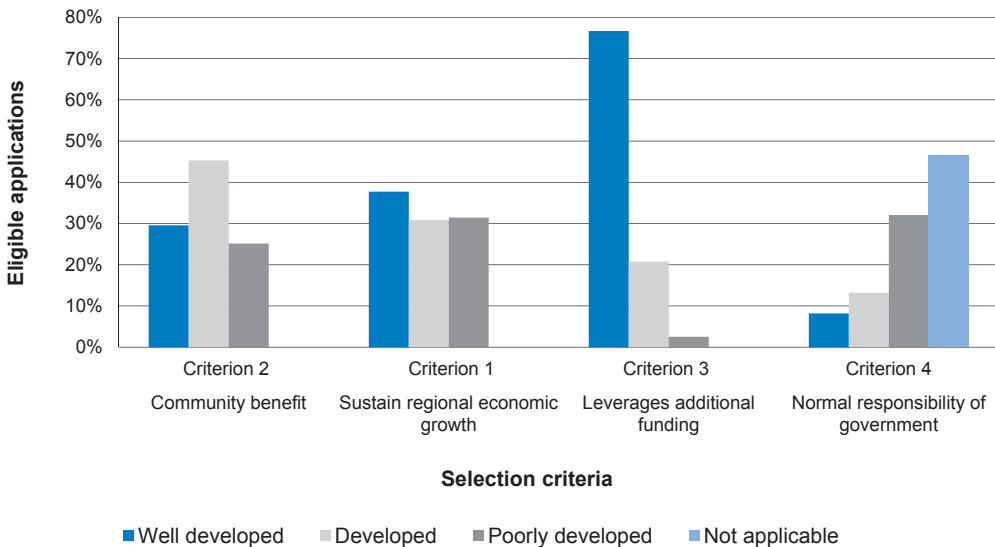
Source: ANAO analysis of DIRD records.

Selection criterion 1 and 2

3.32 Collectively, criterion 1 and 2 measured the extent to which the proposed project would provide economic and community benefit. These directly reflected the RDAF objective, which was 'to support the economies

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and communities of Australia's regions by providing funding for projects that meet community priorities and needs'.

3.33 Round three targeted smaller projects in smaller towns. DRALGAS recognised that the round three projects may therefore deliver a stronger benefit to a community than an economy. Accordingly, round three applicants were allowed to address either criterion 1 or 2. They were, however, encouraged to address both criteria where they felt a case could be made. It eventuated that all eligible applications addressed both criteria. Consistent with the department's expectations, and as illustrated by Figure 3.1, the round three applications performed more strongly against the community-benefit criterion than the economic-benefit criterion.

3.34 Round four offered larger grants for strategic infrastructure projects. Round four applicants were required to address both criterion 1 and 2 and were expected to demonstrate broader regional impact. As illustrated by Figure 3.2, the round four applications performed relatively evenly across the two criteria.

3.35 The approach of requiring the important policy criteria to be addressed was not supported by a requirement that funding would only be awarded to applicants that satisfactorily met at least one of these two criteria (for round three) or both criteria (for round four). For example, 15 applications were approved for a total of $20 million that had been rated 'poorly developed' against both criterion 1 and 2.

Use of objective information

3.36 The guidance materials provided to assessors placed emphasis on considering the extent to which applicant claims were supported by supplementary information. It is a sound approach for selection criteria to be assessed on the basis of objective information provided by applicants or available from other sources, in addition to considering any subjective statements made by the applicants themselves.

3.37 As outlined at paragraphs 2.15 to 2.19, a missed opportunity was that objective information collected from RDA committees at the EOI stage was not used by DRALGAS to inform its assessments at the application stage. RDA committees had already assessed the projects against factors directly relevant

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to selection criterion 1 and 2.[57] Even though all projects that proceeded to the application stage had been endorsed by an RDA committee, they had not been assessed as providing equal benefit or being of equal priority to the region. It was expected that the higher a project was ranked by an RDA committee, the stronger its potential benefits. Therefore, the priority rankings and underlying rationale submitted by the RDA committees had the potential to provide valuable input to the assessment of the community and economic benefits of proposed projects, but this potential was not realised.

Selection criterion 3

3.38   Criterion 3 measured the extent to which the applicant had obtained partner funding for the project. It reflected one of the desired RDAF outcomes, which was for 'Australian, state and local government, private sector and community partnerships to support investment in regional communities'.

3.39   The program guidelines advised that cash or in-kind contributions from the applicant or other partners were preferred but were not mandatory. Nearly every application included some form of contribution from the applicant and/or other partners to the project. The applications were assessed consistently and transparently against criterion 3. However, the three-point rating scale chosen offered the panel and Minister little differentiation. As illustrated by Figure 3.1 and Figure 3.2, three-quarters of applications in each round achieved a rating of 'well developed' against criterion 3. This was the case even though the extent of the partner funding leveraged varied greatly.

Selection criterion 4

3.40   In round two, projects considered to be the normal responsibility of local government were not eligible for RDAF funding. Justification for this was that funding was already being provided through other mechanisms such as Financial Assistance Grants.[58]   Feedback on round two from stakeholders included that these types of projects should not be automatically excluded

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57   It was an eligibility requirement that the project details provided in the application form be the same as those in the EOI form. Therefore, the findings of an assessment of the benefits of a project at EOI stage were relevant to the assessment of that project at application stage. The assessment criteria used in the EOI stage are summarised in Table 2.1 of Chapter 2.

58   The need for agencies to be alert to the possibility of cost shifting and substitution of effort when designing granting activities was highlighted in the CGGs (see: *Commonwealth Grant Guidelines— Second Edition*, Financial Management Guidance No. 3, Department of Finance and Deregulation, Canberra, June 2013, paragraph 11.4).

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from competing. Instead, they should be assessed on their individual merits because there might be valid reasons for seeking the RDAF funding.

3.41   In response to the feedback, a different approach was taken in rounds three and four. Selection criterion 4 was introduced to measure the strength of the case for additional funding and was to apply to 'projects which are normally the responsibility of local government or state and territory governments **only**' *[ANAO emphasis added]*. However, as outlined below, DRALGAS' assessment method did not take into consideration whether or not the proposed project was normally the responsibility of local, state or territory government.

Assessment method

3.42   Question 21 on the application form asked: 'Would the activity that you are requesting RDAF funding for be considered the core business of local, state or territory governments?' The application form then advised that 'If you answer 'yes' to this question you are required to respond to an additional selection criteria statement', being criterion 4. In total across both rounds, 43 per cent of local government applicants answered 'yes' at question 21 and, as required, they then responded to criterion 4. Their responses generally focussed on why the local government was unable to otherwise fund the project. As would be expected, DRALGAS assessed these applications against criterion 4.

3.43   Even though they were not required to, 72 per cent of the local government applicants that had answered 'no' at question 21 also responded to criterion 4. Their responses were usually brief and focussed on why the project was not normally their responsibility. Contrary to the program guidelines, DRALGAS also assessed these applications against criterion 4. Around 40 per cent were rated 'poorly developed'. By way of comparison, those that had left criterion 4 blank received the relatively higher rating of 'not applicable'. Therefore, in the context of a competitive merit-based selection process, it was to an applicant's advantage if they chose not to address criterion 4. This situation is illustrated in the following case study, which summarises the experience of a local government applicant.

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> **Case Study**
> **Assessment against criterion 4: experience of a local government applicant**
>
> The local government applicant submitted an EOI for RDAF funding. In the EOI, the applicant responded 'Not applicable' to the question: 'If you are seeking funding for a project which is the normal responsibility of local, state or territory governments, then please describe why RDAF funding is needed (Maps to Selection Criterion 4)'.
>
> The EOI was ranked first priority by the relevant RDA committee and the applicant submitted a full application. The applicant selected 'No' under question 21: 'Would the activity that you are requesting RDAF funding for be considered the core business of local, state or territory governments?' It also provided the following response to criterion 4, even though a response was not required:
>
>> Not applicable. It is not the responsibility of [the] Council or the [State] Government to fund a purpose-built facility of this kind. [The] Council is a small council with a low rate base.
>
> DRALGAS assessed the application against criterion 4 and rated it 'poorly developed'. It was also rated 'well developed' against criterion 1 and 3, and 'developed' against criterion 2.
>
> The application was not approved for funding. The applicant informed ANAO in December 2013 of the verbal feedback it received from DRALGAS about its application's performance against criterion 4:
>
>> We made a common mistake of responding to [criterion 4] with a brief statement but not putting up a case of why it's not part of our core business. They looked at Council's bottom line and asked why we weren't using own funds. We should have said that our funds are committed to other priorities. Alternatively, as it was not a normal activity of Council, we should have left the response blank, as they would have considered that acceptable. Agreed we had no way of knowing the acceptable way to answer this [criterion].

Assessment of risk

3.44   DRALGAS undertook a risk assessment of each eligible application, which also incorporated viability considerations. Specifically, seven categories of risks were assessed: financial viability; grant management history; statutory approvals; project management; corporate and personnel; technology; and, for unique or uncommon risks, 'other'. A risk rating was recorded against each category, using the scale: 'no concerns'; 'concerns identified'; and 'significant concerns'.

3.45   Risk assessments contribute to the achievement of value with public money by helping to ensure proposals selected for funding have a risk profile

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that is acceptable to the Commonwealth, with any identified risks able to be efficiently and effectively managed. The risk rating 'significant concerns' denoted 'a concern was of such magnitude that the department no longer deemed that the project represented sound value with money'. Accordingly, applications with one or more risks rated 'significant concerns' were subsequently assessed by DRALGAS as not representing value with public money (as per the methodology quoted at paragraph 3.53).

3.46 Risks rated 'concerns identified', however, were considered acceptable subject to treatment to reduce or otherwise manage the risk. Strategies for treating the risks were recorded by assessors and were for implementation during the negotiation phase and/or through the terms of the funding agreement. The potential benefits of conducting the risk assessments, therefore, extended beyond the assessment phase to inform the administration of individual grants.

3.47 The risk assessments were completed, and then quality assured, by departmental officers. For projects of significant complexity, or for which officers lacked relevant expertise, advice could be procured from an independent viability assessor. Advice was procured to inform the assessment of financial viability and/or project management risks for one application in round three and 64 applications in round four.[59] Departmental officers also drew on advice that had been obtained in rounds one and two of RDAF. Any new or pre-existing advice was examined and then incorporated as considered appropriate.

3.48 The findings of the ANAO audit of the first funding round included that the risk assessment process was an improvement on predecessor programs.[60] The process adopted in rounds three and four represented a further marked improvement. The departmental records demonstrated a clear intent by the risk assessment team to learn from the experiences of rounds one and two. They successfully designed and implemented a risk assessment process that was more efficient and that addressed previous issues, such as inconsistency of assessment across applications. Both the process and the

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59   The program guidelines had informed applicants that advice from an independent viability assessor may be obtained. That the advice was predominately procured for round four applications is reflective of that round offering larger grants for projects with broader regional impact.

60   ANAO Audit Report No. 3 2012–13, op. cit., p. 53.

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individual risk assessments were well documented, aiding transparent and accountable grants administration.

Assessment of value with public money

3.49 The CGGs stipulated that achieving value with public money should be a prime consideration in all phases of grants administration.[61] In this context, ANAO's grants administration Better Practice Guide outlines that, when selecting individual candidates for funding, value with public money is promoted by selecting those applications that:

• are eligible;

• have met the selection criteria and, where the granting activity is competitive, have demonstrated the greatest comparative merit in terms of those criteria;

• involve a reasonable (rather than excessive) cost having regard to the quality and quantity of deliverables that is proposed (and any relevant benchmarks/comparators); and

• have a risk profile that is acceptable to the Commonwealth, with any identified risks able to be efficiently and effectively managed.

3.50 One of DRALGAS' responsibilities in implementing RDAF was to determine the value with money associated with proposed projects. In round one, departmental assessors were not required to record for each project whether or not it represented value with money. Rather, the department advised the then Minister that all eligible applications represented value with money. This was notwithstanding that a significant number of these had been assessed as 'poorly developed' against one or more selection criteria (and, in some cases, with a high level of associated project risk). In this context, ANAO made the following recommendation in its audit report on the first funding round (Recommendation No. 2):

> In designing and administering grant programs, ANAO recommends that the Department of Regional Australia, Local Government, Arts and Sport clearly outline to decision-makers the basis on which it has been assessed whether

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61 Commonwealth Grant Guidelines, op. cit., p. 48.

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each application represents value for money in the context of the published program guidelines and program objectives.[62]

3.51   DRALGAS agreed to the recommendation and noted in its published response that 'confirmation of value-for-money was included in the Application Overview provided to members of the Regional Development Australia Fund Advisory Panel in Round Two'.[63] The department had advised the panel and the Minister that all eligible round two applications represented value with money, including those it had rated 'poorly developed' against every selection criterion (the same situation that had led to the ANAO recommendation in relation to the first round).

Rounds three and four

3.52   In rounds three and four, DRALGAS assessed each eligible application to determine whether it represented value with money and then recorded the result. The department advised the panel and the Minister which applications it had assessed as not representing value with money. According to the advice to the Minister, DRALGAS had assessed 16 of the 192 round three applications, and 14 of the 159 round four applications, as not representing value with money.[64]

3.53   DRALGAS also informed the panel and the Minister of the assessment methodology it had applied. That is:

> A project is deemed **NOT** to be value for money, if:
>
> •   One or more risk source category (ies) is rated 'Significant Concerns' (RED)
>
> •   The applicant's answers to all of the selection criteria are rated 'Poorly Developed'
>
> **Note**: applicants are not required to respond to all of the Selection Criterion. If an applicant receives one criterion assessment at better than 'Poorly

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62   ANAO Audit Report No.3 2012–13, op. cit., p. 67.

63   ibid.

64   This differed from the information contained in the 'assessment snapshots', which the department provided to the panel and attached to its advice to the Minister. In round three, the 'assessment snapshots' recorded a total of 16 applications as not being value with money, but four of these applications differed from those listed in the advice to the Minister. In round four, the 'assessment snapshots' recorded that another two applications were not value with money (bringing the total for round four to 16 applications).

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Developed' the application will qualify as value for money unless a risk is rated 'Significant Concerns', as noted above.

3.54   The approach was an improvement on previous rounds in that the value with money assessments were informed by the risk assessments and the results were recorded at the individual application level. It thereby addressed the following element of ANAO Recommendation No. 2: to 'clearly outline to decision-makers the basis on which it has been assessed whether each application represents value for money'.

3.55   However, the approach did not adequately address a key element of the ANAO recommendation, being to assess 'whether each application represents value for money in the context of the published program guidelines and program objectives'. This is because, subject to having an acceptable risk profile, eligible applications only had to satisfy one out of the four selection criteria in order to be assessed as value with money. The approach did not recognise that applications that do not satisfactorily meet each of the published selection criteria are most unlikely to represent value with public money in terms of the objectives of the granting activity.[65]

3.56   For example, there was a direct relationship between the first two selection criteria, which measured the economic and community benefits of projects, and the program's objective 'to support the economies and communities of Australia's regions by providing funding for projects that meet community priorities and needs'. However, DRALGAS considered 46 applications it had assessed as not satisfactorily meeting either of these two core policy criteria to represent value with money.

3.57   A better practice approach was set out by DIRD in the guidelines for its subsequent Community Development Grants Programme. Specifically, the program guidelines published in December 2013 stated:

> The value with public money appraisal process is intended to promote projects that are eligible for funding; **have met the appraisal criteria**; involve reasonable cost having regard to the quality and quantity of deliverables proposed and have a risk profile that is acceptable to the Australian

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65   In this context, see also: ANAO Better Practice Guide, op. cit., p. 63; ANAO Audit Report No.1 2013–14, op. cit., pp. 79–81; ANAO Audit Report No.38 2011–12, *Administration of the Private Irrigation Operators Program in New South Wales*, 5 June 2012; and ANAO Audit Report No.11 2012–13, *Establishment, Implementation and Administration of the Quarantined Heritage Component of the Local Jobs Stream of the Jobs Fund*, November 2012, p. 92.

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Government, with any identified risks able to be efficiently and effectively managed. *[ANAO emphasis added]*

3.58 In June 2014, ANAO advised DIRD that there would be benefit in incorporating the value with money approach described above in its design of future granting activities, with implementation informed by the Community Development Grants Programme experience. However, in its response of July 2014, DIRD continued to support the approach that had been adopted for RDAF. Further, the department indicated that the new National Stronger Regions Fund arrangements may not require applications to meet each of the selection criteria to be assessed as providing value with public money but, rather, only two of the criteria (only a slight improvement on the RDAF round three and four approach). However, further progress was evident in the program guidelines for round one of the National Stronger Regions Fund which were released in October 2014. These stated that 'each application must meet a minimum benchmark against each of the criteria to be recommended for funding to the Ministerial Panel' and that the Fund seeks to promote value with relevant money by selecting for funding those projects that have, among other things, 'demonstrated the greatest relative merit in terms of the published assessment criteria'.

Ranking of applications in order of merit

3.59 The CGGs outlined that, in the case of a competitive granting activity, assessment criteria are to be used to determine applicant rankings.[66] In rounds three and four, DRALGAS ranked those applications that had been assessed as value with money according to their relative performance against the selection criteria.

3.60 One of the disadvantages of qualitative descriptors is that there is no clear basis for consistently combining the individual ratings awarded against each criterion to produce an overall rating. To overcome this difficulty, DRALGAS assigned a number or 'score' to each rating point on its ordinal scale as follows:

- '3' for 'well developed';

- '2' for 'developed'; and

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66   Commonwealth Grant Guidelines, op. cit., p. 65.

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- '1' for 'poorly developed'.

3.61 This technique allowed the department to calculate an average score for each application against the selection criteria overall. This was achieved by adding the numbers awarded against individual criteria and then dividing the result by the total number of applicable criteria, as illustrated in Table 3.3. The applications were then ranked in descending order of their average score to produce an order of merit list. Where multiple applications had the same average score they were assigned the same ranking point on the order of merit list, which was called a 'scoring group'.

Table 3.3:   Calculation of average score against the selection criteria

Example	Criterion 1	Criterion 2	Criterion 3	Criterion 4	Calculation	Ave score
Application 1	Well developed=3	Poorly developed=1	Well developed=3	Well developed=3	$\frac{3 + 1 + 3 + 3}{4}$	= 2.50
Application 2	Well developed=3	Poorly developed=1	Well developed=3	(N/A)	$\frac{3 + 1 + 3}{3}$	= 2.33
Application 3	Well developed=3	Poorly developed=1	Well developed=3	Developed=2	$\frac{3 + 1 + 3 + 2}{4}$	= 2.25
Application 4	Developed=2	Developed=2	Developed=2	Developed=2	$\frac{2 + 2 + 2 + 2}{4}$	= 2.00
Application 5	Developed=2	Developed=2	Developed=2	(N/A)	$\frac{2 + 2 + 2}{3}$	= 2.00
Application 6	Developed=2	Poorly developed=1	Well developed=3	(N/A)	$\frac{2 + 1 + 3}{3}$	= 2.00

Source: ANAO analysis of DIRD records.

3.62 Criterion 4 was the only selection criterion for which applications could be assessed as 'not applicable' in place of a rating. The formula for calculating the average score resulted in the inconsistent treatment of applications in respect of criterion 4. At times, the calculation resulted in an assessment of 'not applicable' as:

- being equally meritorious to a rating of 'well developed';

- being equally meritorious to a rating of 'developed' (compare Applications 4 and 5 in Table 3.3);

- falling in between the ratings 'well developed' and 'developed' (compare Applications 1, 2 and 3 in Table 3.3); or

- falling in between the ratings 'developed' and 'poorly developed'.

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3.63   The formula also resulted in a rating of 'well developed' plus a rating of 'poorly developed' being equivalent in merit to two ratings of 'developed'. That is, a strong performance against one criterion could compensate for not satisfactorily meeting another criterion. This situation is illustrated in Table 3.3 by comparing Applications 5 and 6. Departmental records do not indicate that this situation was a considered decision at the program design stage. Instead, it appears to be a side effect of the formula adopted at the time of ranking applications.

3.64   While DRALGAS' approach of assigning a number to each rating point on the ordinal scale had some benefits, it did not transform the ordinal scale into the numerical scale recommended by ANAO in the audit of the first RDAF funding round. It remained an ordinal scale except that numbers were now being used to identify the rating points instead of qualitative descriptors. Therefore, some of the weaknesses associated with the use of an ordinal scale remained.

3.65   Of note in this respect was that the ordinal scale used for RDAF contained only three rating points and so had limited capacity to reflect the relative performance of applications against each selection criterion. For example, three-quarters of eligible applications were equally rated 'well developed' against criterion 3. Large numbers of applications were then ranked equally on the order of merit list. The list produced in round three ranked up to 47 applications in a single scoring group—that is, 27 per cent of eligible applications were presented as equally meritorious against the criteria overall. The order of merit list produced in round four ranked up to 27 applications (19 per cent) into a single scoring group.

3.66   Another weakness is that there are not fixed differences between the respective ratings when an ordinal scale is used. It cannot be assumed that an RDAF application rated 'well developed' against a criterion (represented by a '3' on the ordinal scale) performed 50 per cent better than an application rated 'developed' (represented by a '2'). Similarly, it cannot be assumed that Application 1 in Table 3.3 with an average score of 2.50 had performed 25 per cent better against the selection criteria overall than Applications 4, 5 or 6 with their average scores of 2.00. By way of comparison, and as outlined in ANAO's grants administration Better Practice Guide, the presumption underlying a numerical scale is that an application with a score of five, for example, has performed five times better than an application with a score of one.

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3.67 For future competitive granting activities, and as previously recommended by ANAO, there would be benefit in DIRD using a numerical scale to rate applications. Further, the rating and ranking methodology should be thoroughly tested before it is adopted to ensure that it effectively and consistently differentiates between applications of varying merit in terms of the criteria and to ensure that it accommodates any program-specific factors set out in the published program guidelines. This includes considering:

- whether certain criteria are optional or are only applicable to a sub-set of applications;

- whether a minimum score should be set against each criterion that an application is expected to achieve if it is to progress to funding consideration (otherwise an application may achieve a high overall score, and consequently a high ranking, despite having been assessed as not satisfactorily meeting one or more of the criteria[67]); and

- the relative importance of criteria (noting that all criteria were weighted equally in rounds three and four of RDAF).

3.68 By way of comparison to the approach adopted for the third and fourth RDAF funding rounds, a recent ANAO audit of an infrastructure funding grant program administered by another department outlined a sound scoring methodology that would provide a useful starting point for DIRD to consider.[68]

Results of ranking process

3.69 The ranking process resulted in an order of merit list for each funding round, wherein applications assessed as being value with money were ranked into 12 scoring groups according to their relative performance against the selection criteria. Applications assessed as not representing value with money were included at the end of each list but were not ranked.

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67 For example, this situation occurred in a program administered by a predecessor agency (Department of Infrastructure and Transport) where applications that had been scored a zero against a criterion still ranked highly by virtue of their scores against the other criteria. See ANAO Audit Report No.1 2013–14, op. cit., p. 75.

68 See ANAO Audit Report No.31 2013–14, *Management of the Building Better Regional Cities Program*, 17 April 2014, pp. 48-51 and 57-59. The then Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) was initially responsible for the design and implementation of the program, with the Administrative Arrangements Order of 14 September 2010 transferring responsibility for the program to the then Department of Sustainability, Environment, Water, Population and Communities before it was returned to FaHCSIA during the merit assessment stage.

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3.70 Regardless of there being room to have improved the underlying rating scale, it was reasonable to expect that the panel would use the order of merit lists produced by DRALGAS as an input to its selection of applications for funding recommendation. In a short timeframe, the panel was required to consider the individual and relative merits of a large pool of applications that had been awarded differing mixes of qualitative ratings. In this context, the order of merit lists would have provided a clear starting point for identifying the most meritorious applications in a manner consistent with the published program guidelines.

3.71 However, the order of merit lists were not incorporated into the assessment methodology to be used by the panel. Further, DRALGAS did not create or provide each order of merit list until after the panel had commenced scoring the applications.[69] In this respect, DIRD advised ANAO in July 2014 that 'Advice on rankings was provided to the Advisory Panel after its initial scoring, reflecting Advisory Panel members' desire to review each application individually and on its own merits'.

Conclusion

3.72 The application lodgement and receipt processes adopted represented a considerable improvement on those used in the first funding round. It was also evident that the approach taken to checking application eligibility was improved, although the guidance to applicants on eligibility matters was of a variable standard. This was particularly the case in relation to the round three requirement that projects be located in towns with populations of 30 000 people or less. In particular, a number of potential applicants and RDA committees experienced difficulty applying this requirement.

3.73 ANAO's audit of the first RDAF funding round concluded that improvements in the quality of the department's assessment work were evident. Further improvements in the assessment of eligible applications were made in the third and fourth RDAF funding rounds. In this context, in accordance with the respective program guidelines, DRALGAS assessed in a consistent manner each eligible application against the selection criteria and in

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69   DIRD advised ANAO that the order of merit list for each round were tabled at the panel meetings. One panel member was unable to attend the round four meetings and so would not have had the benefit of this list when scoring the applications.

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terms of associated risks and value with money. In addition, assessors recorded the key information considered and the conclusions reached in respect of each application, thereby supporting transparent and accountable grants administration.

3.74 There was one notable departure from the program guidelines in the assessment of applications. Specifically, some applications were allocated an unfavourable rating against the fourth selection criterion, notwithstanding that it was not relevant to their application. In the context of a competitive merit-based process, this was to the disadvantage of those applicants.

3.75 Another shortcoming was that DRALGAS did not fully implement recommendations it had agreed to in ANAO's audit of the first RDAF funding round. Specifically, the department:

- persisted with a similar rating scale to that used in the first funding round, notwithstanding that its approach does not provide a clear and consistent basis for effectively discriminating between the relative merits of individual applications; and

- implemented only part of the second recommendation from the earlier audit in that it clearly outlined to decision-makers the basis on which it had assessed whether each application represented value with public money. However, the department retained an unsound underlying methodology that saw applications identified as representing value with public money notwithstanding that they had been assessed as not satisfactorily meeting one or more criteria, including the key policy criteria.[70]

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70 ANAO's grants administration Better Practice Guide outlines that: 'Applications that are assessed as not satisfactorily meeting the published merit assessment criteria are most unlikely to represent value with public money in terms of the objectives of the granting activity. Additionally, such practices can adversely affect whether value with public money and the desired outcomes are able to be achieved.'

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Recommendation No.2

3.76 ANAO recommends that the Department of Infrastructure and Regional Development incorporate in the value with money methodology adopted in future granting activities an approach that reflects that applications assessed as not satisfactorily meeting the published merit assessment criteria are most unlikely to represent value with public money in terms of the objectives of the granting activity.

DIRD's response:

3.77 *Noted. In circumstances where all criteria need to be met, this will be reflected in the programme guidelines and the assessment of value with relevant money.*

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4. Panel's Assessment of Eligible Applications

This chapter examines the RDAF advisory panel's assessment of eligible applications and its funding recommendations. It also addresses the provision of information to the panel by DRALGAS.

Introduction

4.1   For the first four rounds of RDAF, an independent advisory panel was given responsibility for considering the individual and relative merits of eligible applications and providing advice to the Minister on projects which were recommended for funding. The panel comprised five members selected for their experience, knowledge and expertise on regional Australia. The membership and role of the panel remained constant throughout the four rounds.

4.2   DRALGAS was to support the panel to implement and document a process that recommended for funding the most meritorious applications in the context of the RDAF objective and published program guidelines. The department's responsibilities included organising the panel meetings, providing information about the applications, providing the results of the department's assessment of each application, recording the panel's deliberations in the form of meeting minutes, and facilitating the information flow between the panel and the Minister.

4.3   Against this background, ANAO examined the information DRALGAS provided to the panel, and the panel's assessment of eligible applications to the third and fourth rounds and its related funding recommendations. ANAO also considered the extent to which the results of the assessment stage were demonstrably consistent with the competitive merit-based selection process set out in the program guidelines.

Reduced timeframe for providing advice

4.4   DRALGAS reported to three Ministers with primary responsibility for RDAF during the period in which the third and fourth funding rounds were designed and conducted. These were:

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- The Hon Simon Crean, as Minister for Regional Australia, Regional Development and Local Government from 14 September 2010 to 21 March 2013;

- The Hon Anthony Albanese MP, as Minister for Regional Development and Local Government from 25 March 2013 to 1 July 2013; and

- The Hon Catherine King MP as Minister for Regional Services, Local Communities and Territories from 25 March 2013 to 1 July 2013 and then as Minister for Regional Australia, Local Government and Territories from 1 July 2013 to 18 September 2013.

4.5   Following the March 2013 change of Ministers, DRALGAS was advised on 11 April 2013 that the target date for finalising the advice on round three applications had been brought forward three weeks to 6 May 2013. The department was also advised on 11 April 2013—the closing date for round four applications—that the target date for providing advice on round four had been brought forward by approximately six weeks to 17 May 2013. The then Minister also advised that the consideration of applications by the panel could be by-passed if needed, to ensure that these deadlines were met.

4.6   The panel role was retained but the changed target dates substantially reduced the time available to assess applications. Similarly, there was significantly less time available for the panel to consider each eligible application and agree upon its funding recommendations. The impact was compounded by rounds three and four being run concurrently. In addition, the department had commenced developing the round five arrangements for release in June 2013.

Information provided to the panel

4.7   DRALGAS was responsible for providing support and information to the panel. For each funding round, DRALGAS emailed meeting papers to panel members during the week prior to the panel meeting. Information provided in the meeting papers included:

- an overview of the EOIs and applications received, such as their distribution by applicant type, project type and locality;

- the methodology and results of the department's assessment of applications in terms of the selection criteria, risk, viability and value with money (see 'assessment snapshots' below);

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- input from state, territory and Australian government agencies where available;

- an overview of the outcomes of previous rounds; and

- Australian Bureau of Statistics data on the socio-economic status of local government areas.

4.8   The panel members could request that other information be provided at any time. The panel made several such requests during its deliberations and these were met promptly by DRALGAS. This included additional information about particular applications, regions and industry sectors. However, the priority ranking assigned to each project in each region by the RDA committees, and the associated rationale, were not provided to, nor requested by, the panel.

4.9   Further, there was no reference to the order of merit lists DRALGAS had produced, which ranked applications in order of assessed merit against the selection criteria, within the meeting papers or the subsequent meeting minutes. DIRD advised ANAO in December 2013 that the order of merit list was tabled during each panel meeting.

Assessment snapshots

4.10   As part of the meeting papers, the panel was provided with an 'assessment snapshot' (snapshot) on each eligible application. These included, among other things, a summary of the proposed project and the results of DRALGAS' assessment of the application in terms of the selection criteria, risk and value with money. A one-page snapshot was provided for each of the round three applications, and a longer snapshot (averaging six pages) was provided for each of the round four applications. The snapshots were a primary source of information on each application that was provided to the panel and, later, to the Minister. Therefore, it was important that the snapshots be accurate.

4.11   While the majority of the information in the snapshots was accurate, approximately a third of the snapshots contained errors of note. For example, at times a higher or a lower rating was recorded against a selection criterion or a risk category than had been awarded by assessors and there were errors found in some of the project details. The number of contributing partners had been over calculated in 38 per cent of the round three snapshots, which may have provided an unfair advantage given the program guidelines indicated that priority would be given to those offering contributions from a variety of

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sources. In the snapshots for the round four applications, the start and/or end dates of the proposed activity were frequently incorrect when that activity formed part of a larger project. Notably, on nine occasions this lead to the activity's end date extending beyond the allowable limit of 31 December 2016 and so incorrectly appeared ineligible.

4.12 In February 2014, DIRD informed ANAO of the lessons learned from rounds three and four that would help reduce the error rate in the records of future granting activities. The strategies proposed addressed the range of potential causes that had been identified by the ANAO. Specifically:

> The Department notes that the time for assessment, generation of the snapshots and quality assurance of the snapshots was compressed. The Department was also required to ensure that Panel members had sufficient time to review the snapshots and seek further information to inform their discussions on all eligible applications.
>
> Lessons learned that will help reduce the error rate for future grant programmes include:
>
> • Ensuring the consistency of language between the application, Clarity [the department's grant management system] and the snapshot.
>
> • Correcting any errors in data in Clarity before the snapshots are produced.
>
> • Ensuring that the quality assurance process between the worksheets and Clarity takes place before snapshots are produced.
>
> • Seeking to accommodate potential changes to timeframes by developing alternative assessment scenarios in the planning stages and detailed risk mitigation strategies.

Panel's assessment of eligible applications

4.13 The panel met on 2 and 3 May 2013 to discuss the 192 eligible round three applications and to determine its funding recommendations, which were provided to the then Minister on 6 May 2013. The panel then met again between 13 and 15 May 2013 to discuss the 159 eligible round four applications, with its round four recommendations being provided to the Minister on 17 May 2013.

4.14 According to the program guidelines, the panel was to review eligible applications against the published selection criteria and consider their individual and relative merits. Each application was to be classified into one of three

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categories: 'Recommended for Funding' (RFF); 'Suitable for Funding' (SFF) and 'Not Recommended for Funding' (NRF). The panel was to rank each application it had categorised as RFF or SFF in order of relative merit and to make recommendations to the Minister on the most meritorious projects for funding.

Categorising applications

4.15 The first step of the assessment methodology adopted by the panel was for each member to independently categorise each application by assigning it a score of 10, five or zero. A score of:

- 10 denoted a categorisation of RFF;

- five denoted a categorisation of SFF; and

- zero denoted a categorisation of NRF.

4.16 The members provided their individual scores to DRALGAS and these were aggregated to produce a preliminary overall score out of 50 for each application. If a panel member could not score an application due to a conflict of interest, then the average of the remaining members' scores was applied.[71]

4.17 This process was undertaken in advance of the panel meeting. Therefore, the preliminary overall scores were not informed by the results of the department's ranking of applications in order of performance against the selection criteria, as it was not provided until the panel met.[72] Further, one panel member was unable to attend the round four meetings and so would not, therefore, have had the benefit of this information. This panel member provided scores and comments to DRALGAS in advance of the meeting and these were incorporated into the panel's discussions and decisions.

4.18 During the panel meetings, members discussed the applications and confirmed or adjusted their individual scores to produce a final overall score out of 50 for each application. The final overall scores were used as the primary basis for categorising each application as RFF, SFF or NRF.

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71 The panel had received a probity briefing and had access to a probity advisor. Potential conflicts of interest were documented and managed appropriately.

72 In this context, see also paragraphs 3.69 to 3.71.

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Ranking applications

4.19   In the first funding round, the panel had individually ranked each application in the RFF category as well as the 39 highest priority applications in the SFF category. However in rounds three and four, the panel instead chose to group the applications in the RFF and SFF categories into 'bands', with all applications within each band being considered equally meritorious. For example, the applications in 'SFF Band 1' were more highly ranked than those in 'SFF Band 2'.

4.20   An overview of the results of the panel's assessment of eligible applications in rounds three and four is provided in Table 4.1.

Table 4.1:   Results of panel's assessment

Round three		Round four	
Recommended for Funding		**Recommended for Funding**	
Band 1	25 equally ranked for $10.3m	34 equally ranked for $172.5m	
Band 2	66 equally ranked for $26.4m		
Band 3	4 equally ranked for $1.6m		
Suitable for Funding		**Suitable for Funding**	
Band 1	13 equally ranked for $5.4m	Band 1	7 equally ranked for $40.6m
Band 2	7 equally ranked for $2.1m	Band 2	12 equally ranked for $42.2m
Not Recommended for Funding		**Not Recommended for Funding**	
	77 unranked for $31.2m		106 unranked for $526.8m

Source: ANAO analysis of DIRD records.

Note: The monetary values are as recommended by the panel and are less than that requested by round three applicants in the RFF Band 2 and SFF Band 1 categories, and by round four applicants in the RFF, SFF Band 1 and NRF categories.

4.21   The broad-banding approach offered the Minister little in the way of advice on the relative merits of the competing applications across the RFF and SFF categories. For example, by ranking all 34 applications in the RFF category equally in round four, the list offered the Minister no more assistance in distinguishing the relative merits of those 'ranked' in the RFF category as it did those 'unranked' in the NRF category. While the program guidelines allowed the panel to assign the same ranking point to multiple applications[73], it is

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73   In this context, the program guidelines stated 'For example, three projects may be ranked as equal first in the Suitable for Funding group'.

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unclear how the approach taken in round four fulfilled the intent of the requirement to rank these 34 applications.

4.22 In response to concerns raised by the ANAO about its ranking approach, the former panel advised in July 2014 that:

> … the Panel did provide a ranked list to the Minister, using 'bands' rather than a numeric listing. By using bands, the Panel provided the Minister with clear advice about which projects 'should be preferred for approval'. While it is true that a numerical listing of projects could be produced, by reducing each element of a project's evaluation to a number, and then adding up the numbers, it is the Panel's view that this would actually create a false impression that projects—very close in ranking—are in fact better or worse depending on one point, or less than one point, out of one hundred. Furthermore, the panel was mindful at all times not to presume that we were comparing 'like' communities. We believe that the 'banding' approach adopted by the Panel provided a more meaningful and accurate representation to the Minister of the relative merits of the projects considered.[74]

4.23 In regard to the panel's reference to the limitations of 'a numeric listing of projects', ANAO notes that the round one merit list had contained 67 ranking points by which to distinguish the relative merits of applications in the RFF and SFF categories, in contrast to the five ranking points (or bands) provided in the round three list and the three ranking points provided in the round four list.

Round three recommendations

4.24 In round three, the panel recommended to the Minister the 95 applications it had categorised as RFF. The panel also recommended that a different level of funding be provided for three of these applications. In each case, the panel considered there was capacity for the proponent to increase its own contribution to the project. If agreed by the Minister, this would have

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74 In its October 2014 response to the draft audit report, the panel provided additional advice on why it had formed the view that broader banding would be advantageous: '… following Round 1, it was quite clear to us that making Recommendations separated by so many 'ranking points' ran the risk of creating a false impression that a material difference in relative merit existed between similarly worthy projects. We did not want to create this type of false and unhelpful distinction so, after careful consideration, we adopted an approach that ranked projects by more broadly banding. We were advised by the Department that this was both a useful and acceptable (in ANAO terms) method for us to use. As you note, this is consistent with the ANAO's *Commonwealth Grant Guidelines* and certainly, based on the Panel's collective expertise in rural and regional Australia, a much more appropriate and accurate way of presenting the relative merits of a very diverse set of projects.'

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reduced the amount required to fund the 95 applications from $38.6 million to $38.3 million.[75]

4.25   This represented a considerable shortfall compared with the available funding of $50 million and in light of the relatively low value of the grants requested in round three. The reason the panel decided to recommend $11.7 million (23 per cent) less than the funding available was not adequately explained in the records. This was a significant oversight given the policy rationale for quarantining a certain amount of funding to support smaller towns and municipalities. In July 2014, the former panel advised the ANAO that:

> … the view of the Panel was that it recommended only those projects that it collectively believed to be of the highest quality. Those that were not recommended to the Minister were, in the view of the Panel, not of significantly high quality.

4.26   As noted in ANAO's grants administration Better Practice Guide, under the financial management and grants policy frameworks it is not acceptable for applications to be recommended or approved for funding in order to exhaust the available appropriation despite insufficient applications of adequate quality being on hand. However, it was not clear from the panel records why none of the 97 applications remaining were considered to be of sufficient merit given:

- each had satisfied the EOI stage (and so been endorsed as a priority by an RDA committee); and

- a number had been assessed by DRALGAS as satisfactorily meeting the selection criteria.

4.27   Instead, the unused round three funding, which was sufficient to have supported an additional 47 small town projects, was used to fund round four applications (including projects located in major cities).

Round four recommendations

4.28   At the time the panel made its round four recommendations, $175 million was available. The panel recommended to the Minister that the 34 applications

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75   The panel also proposed that the grant value of an application categorised as SFF be reduced from $200 000 to $135 000 to better reflect the size and scope of the project and the benefits that it would offer were it to be funded.

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categorised as RFF be approved for funding. The panel also recommended that a different level of funding be provided to that requested for 12 of these applications. This reduced the total amount required to fund the 34 applications to $172.5 million—down from the $201 million requested by applicants.

4.29 In respect of the reduced funding proposed for 12 of the recommended applications, departmental records indicate that each application was considered separately. Recorded bases for the reductions included that additional funding could be leveraged from other sources, and that the size of the grant requested did not match the scope or nature of the project. The panel advised the Minister that it strongly believed that these 12 projects would still be undertaken as proposed in the applications. Specifically, the panel advised the Minister that:

> I draw your attention to the reduced grant amounts recommended by the Panel in a number of circumstances. The Panel carefully considered each grant requested, and in many cases, was of the view that additional funding could be leveraged or the size of the grant did not match the scope and nature of the project. We also considered that the reduced grant size ensured that the maximum benefit could be gained from the funding available in the Round. The Panel strongly believes that projects which are Recommended for Funding, where a reduced grant allocation is recommended, will still be undertaken as proposed in the application.

Recommended reduction to the funding cap

4.30 The panel had decided at the beginning of its round four deliberations that applicants should be provided with a maximum grant of $10 million 'to ensure that both the impact and leverage of funds was maximised'. Departmental records indicate that this was then applied as a blanket cap to any application categorised as SFF or NRF requesting a grant greater than $10 million. There were 25 such applications: two categorised as SFF (which were reduced by a total of $7.4 million); and 23 categorised as NRF (which were reduced by a total of $101.2 million). Six of these were later approved for funding and on two occasions the Minister decided to award a higher amount than the $10 million proposed by the panel (with one being awarded $12 million and the other $13 million).

4.31 The program guidelines had explained that the panel may recommend a different level of funding to that requested. However, the program guidelines also clearly stated that applicants could request from $500 000 to

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$15 million in funding under round four. That is, the cap established by government and advised to applicants was $15 million per grant.

4.32 Where a reduction was proposed, it was intended that the applicant be required to make a corresponding increase to its own or its partners' cash contributions. Imposing the lower cap of $10 million as a blanket rule did not take into consideration the applicant's capacity to cover the shortfall or the potential effect on project viability. Of particular concern is where the blanket rule was imposed on applications with identified risks relating to applicant and/or project viability, as a reduced grant may increase the likelihood and consequence of these risks.

Extent of alignment between recommendations and merit assessment

4.33 The CGGs stated that 'the basis for recommending or rejecting each proposed grant should be set out in the assessment material for each grant and should reflect the particular merits of each project in terms of the grant guidelines (**including assessment against the eligibility and assessment criteria**)' *[ANAO emphasis added]*.[76] The CGGs went on to explain that:

> Assessment [or selection] criteria are the specified principles or standards, against which applications will be judged. These criteria are also used to assess the merits of proposals and, in the case of a competitive granting activity, to determine applicant rankings.[77]

4.34 For the first four rounds of RDAF, funding was to be allocated using a competitive merit-based selection process. Therefore, in the absence of additional explanation, a reasonably strong correlation would be expected between an application's position on the order of merit list and the results of its assessment against the published criteria. Consistent with this, the definitions of the RFF and SFF categories included benchmarks of expected performance against the selection criteria. These were set out in the published operating procedures for the panel as follows:

- Recommended for Funding [RFF]—that is, the project is meritorious, **meets the selection criteria to a high degree** and will have a strong positive impact on the region;

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76 Commonwealth Grant Guidelines, op. cit., p. 25.
77 ibid., p. 65.

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- Suitable for Funding [SFF]—that is, the project **meets the selection criteria** and will have a positive impact on the region but is not as strong as those rated as 'recommended for funding'; or

- Not Recommended for Funding [NRF]—that is, the project and/or application is not strong and has no identifiable positive impact on the broader community. *[ANAO emphasis added]*

4.35   However, the key findings of ANAO's audit of the first funding round included that there was not a clear and consistent correlation between an application's position on the panel's order of merit list and the documented assessment of each application against the selection criteria.[78] Further, the reasons for the ranking awarded each application by the panel were not recorded in the meeting minutes.

4.36   In this context, ANAO examined the results of the assessment phase of rounds three and four of RDAF to determine whether it had demonstrably identified and ranked in priority order those eligible applications that best represented value with public money in the context of the program's guidelines and policy objectives. This included analysing the extent to which the panel recommendations aligned with the recorded results of the merit assessment or were otherwise explained in the panel records.

Extent of alignment in rounds three and four

4.37   Similar to the findings of the first audit, there was not a clear and consistent alignment between the panel's funding recommendations and the recorded results of the merit assessment. In round three, this was most evident by the recommendation of four applications that had been assessed by DRALGAS as not representing value with money. Also, from the large portion of funds proposed to remain unallocated even though the recorded results of the assessment indicated there were additional applications of merit available for selection.

4.38   The degree of alignment was particularly weak in round four. For example, 12 of the applications recommended (35 per cent) had been assessed as not satisfactorily meeting one or more of the published selection criteria,

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78   For example, some applications assessed as meeting most or all of the published criteria to a high standard were categorised and ranked lower than other applications where the documented assessment indicated that they were less meritorious in terms of the published criteria. See also: ANAO Audit Report No. 3 2012–13, op. cit., p. 80.

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while 44 of those not recommended had been assessed as meeting every selection criterion.

4.39 In respect to the interaction between the results of the department's assessment of eligible applications and the recommendations of the panel, the former panel advised ANAO in July 2014 that:

> This material was put together by the 'assessors'—who no doubt have skills in program management, but do not have much direct experience or understanding of rural and regional Australia. Panel members, on the other hand, were appointed because of their specialist knowledge of regional and rural development issues. It is the view of the Panel that the materials provided by the 'assessors' provided a useful reference point, one important input, but not the only one on which the Panel should rely. As Panel members we were there to draw on our collective specialist expertise to consider the strengths and weaknesses of each project against the merit criteria.

> ... The information provided by the assessors was a useful tool in our deliberations, but we also drew on the individual and collective experience of Panel members, whose academic and practical understanding of rural and regional Australia was very strong. To suggest that there is something concerning about this process because decisions of the Panel differed, on occasions, from an initial assessment made by a public servant or contractor administering a program is to misunderstand the significant benefit provided by input from an independent expert advisory panel. The Panel believes that it is not reasonable to equate the view of an 'assessor' without any direct subject matter expertise to the careful deliberations of a Panel of people with deep subject matter expertise (nearly 100 years of collective experience in issues affecting rural and regional Australia). Indeed, the Panel believes that the fact that the Panel sometimes disagreed with the 'assessor' doesn't mean something was wrong with the process—quite the reverse. What it means is that the specialist advisory Panel was doing its job effectively—applying its collective expertise and experience to the benefit of the program's policy objectives and, importantly, ensuring value-for-money for taxpayers. It is the Panel's view that for a specialist advisory panel to challenge and question the initial assessment is critical to good policy outcomes—certainly of more value than simply rubber-stamping the views of Departmental officers or contractors.

4.40 The important role of the panel in forming an independent view on the merits of each eligible application, in terms of the published selection criteria, and drawing on not only the input from the department but also its own collective experience, is recognised. ANAO has no fundamental issue with the

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panel reaching a different view to the agency assessors in terms of an application's performance against the published selection criteria, given the different perspectives of the panel to the department (as outlined by the panel at paragraph 4.39). Rather, of concern in rounds three and four was that the only assessments against each selection criterion were those of the department, when the panel's advice to ANAO indicates that the panel had disagreed with these assessments on some occasions.[79] There were no revised assessments against the relevant criteria recorded to explain or support the panel's demotion of some projects, and promotion of others, relative to the results of the department's assessment.[80]

4.41   In this context, DIRD advised ANAO in August 2014 that:

> The Panel did not assess (or re-assess) each project against each of the merit criteria. Rather it took a holistic view of the project and its benefits. The Panel's approach considered a range of inputs, including the Department's analysis of the case presented by the applicant.

4.42   Similarly, in October 2014, the former panel commented to ANAO that:

> The Panel did assess each project against the selection criteria. What the Department is saying is that the Panel considered all of the selection criteria together. Therefore, the only point of difference between what the ANAO would have like to have seen happen and what happened, is that the Panel considered and applied the selection criteria in their entirety, rather than going through an exercise for every project to consider each of the selection criteria individually. This was not required, nor a sensible way to manage a discussion about the merits of a particular project.

4.43   However, an assessment approach that does not involve documenting explicit consideration of each of the published criteria for each eligible application, and using such assessments to determine applicant merit rankings, does not sit comfortably with the grants administration framework

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79   Further advice from the panel provided to ANAO in October 2014 confirmed that the panel 're-rated and challenged the initial assessments'.

80   In round one, the records of the advisory panel meetings indicated that the panel at times downgraded an application's rating against a selection criterion and, in one instance, upgraded it. For example, the round one minutes recorded against one of the applications that: "On the basis of its concerns about the ownership of the asset, the Panel re-rated the case against Selection Criterion 5 as 'poorly developed'". In contrast, neither the round three or round four minutes made reference to an application's performance against the selection criteria.

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(see paragraph 4.33). Further in this respect, the published terms of reference for the panel stated that:

> The Panel will support the aims of the RDAF program by discussing and assessing the relative merits of and ranking, all eligible RDAF proposals based on the following:
>
> - **criteria set down in the RDAF Guidelines**;
>
> - identify projects which may have an impact on a larger number of communities;
>
> - considering available funds and their geographical distribution … *[ANAO emphasis added]*

4.44   Nor would the scoring methodology used by the panel (outlined at paragraphs 4.15 to 4.18) have readily supported or reflected an assessment against each of the selection criteria. It is important to recognise that the incorporation of an advisory panel into the design of the assessment phase did not affect DRALGAS' responsibilities for:

- developing, implementing and documenting a process that identified and recommended for funding those applications that would provide the greatest value with public money in the context of the RDAF objectives;

- ensuring that the assessment process was undertaken in a manner that demonstrated that the competitive merit-based selection approach set out in the published program guidelines had been applied; and

- ensuring all applicants were treated, and could be seen to be treated, equitably and fairly.

4.45   Notwithstanding that DRALGAS and the panel had the benefit of two previous funding rounds to learn from, and the findings and recommendations of an ANAO performance audit of the first round, the methodology the panel had developed in August 2011 on the first day of its deliberations for the first funding round continued to be applied in May 2013 for rounds three and four. In this regard, DRALGAS did not support the assessment approach by developing and implementing arrangements that would ensure the panel undertook, and recorded, the assessment of merit against each of the published selection criteria in a manner that is consistent with the published program guidelines.

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4.46 Other departments audited by ANAO that have employed subject matter experts from outside the department on an advisory panel or committee have typically provided panel members with an assessment and scoring template that reflects the published selection criteria. For example, the Department of Agriculture in its administration of the Filling the Research Gap program (Audit Report No. 11 2013–14, p. 50) provided panel members with a copy of a merit assessment spreadsheet to record assessments (round one) and access to an online assessment tool to record assessments (round two) as well as relevant supporting documentation (a merit assessment scoring guide for round one; and a more extensive range of support documentation in round two, mainly related to guidance in using the online assessment tool to analyse applications).

Recording the bases for panel decisions

4.47 The results of DRALGAS' assessment of each application against the selection criteria was not the only factor to be considered by the panel. Where the panel considered that an application which had performed relatively poorly against the selection criteria, for example, should be approved for funding on other grounds then the basis for that decision should be recorded.

4.48 DRALGAS was responsible for the panel's record keeping. These included meeting minutes and a record of the panel's final decision in respect of each eligible application (which were referred to as 'decision slips'). Draft versions were circulated to each panel member for comment by DRALGAS and, in accordance with the program guidelines, the final versions were endorsed by the chair on behalf of the panel. During the audit of round one, ANAO had identified that only the panel's decisions were recorded in the meeting minutes, as opposed to the panel discussions leading up to those decisions. The findings presented in the audit report included:

> For some applications there was not a clear relationship between the documented assessment of applications against the selection criteria and the order of merit determined by the panel deliberations. In these circumstances, not recording in the minutes the reasons for the panel's assessment decisions has an adverse impact on the quality of the assessment records. It also does not assist stakeholders to have a sound understanding of, and confidence in, the process by which the panel arrived at its funding recommendations.[81]

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81   ANAO Audit Report No.3 2012–13, op. cit., p. 83.

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4.49 In response, DRALGAS advised ANAO in July 2012 that it would 'reflect ANAO feedback on content and reasons for decisions in the preparation of minutes or other documents for subsequent rounds of the program'.[82] Supporting this advice, the program guidelines for the third and fourth rounds stated that 'decisions taken by the Panel, **including rationale**, will be recorded' *[ANAO emphasis added]*.

4.50 However, the rounds three and four minutes offered less insight into the panel's deliberations than had the round one minutes. In reference to the shortcomings ANAO identified in the rounds three and four minutes, DIRD advised in July 2014:

> The Minutes of Meetings recorded the outcomes of the Advisory Panel's discussions, rather than the content, as agreed by members. The Department included rationale for decisions in the Minutes, consistent with the ANAO's recommendations, although the Department accepts that the rationale may not be as detailed as envisaged by the ANAO when making its recommendations on Round One.

4.51 However, there were many instances where no rationale was recorded, including some where the panel's categorisation was at odds with the department's assessment results. In respect of 61 per cent of the 192 applications considered in round three, only the score and category assigned by the panel was recorded in the meeting minutes. In round four, the statement 'no discussion' was recorded against 36 per cent of the 159 applications. Further, it is unclear how recording 'no discussion' could be accepted as being an adequate rationale for:

- 16 of the decisions taken by the panel to not recommend applications that had been assessed to satisfy each round four selection criterion; or

- recommending an application assessed as not satisfactorily meeting either criterion 1 or 2, which measured the extent to which the project would contribute to regional economic growth and provide community benefit.

4.52 Where a comment was recorded, it did not always explain the decision taken. For example, the comment recorded against one of the panel decisions to categorise as 'Not Recommended for Funding' an application rated by the

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82   ANAO Audit Report No.3 2012–13, op. cit., p. 84.

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department as 'well developed' against each selection criterion was 'the Panel considered that the project offered real economic benefits for the local community'. While the comment recorded against the decision to recommend a competing application awarded ratings of 'developed' and 'poorly developed' against the criteria was 'the Panel noted that this was a good project, however considered that there were alternate sources of funding'.

4.53 Against this background, ANAO's analysis was that the approach taken did not support transparency, accountability and informed decision-making in the spending of public money through a granting activity.[83]

Design of the assessment phase

4.54 The design of the assessment phase itself did not facilitate a strong relationship between the results of an application's assessment against the selection criteria and its subsequent categorisation by the panel for funding consideration. The assessment phase involved three stages, with each stage culminating in a ranking of projects according to relative merit. In summary, the stages were:

1. assessment of EOIs by RDA committees, with projects being ranked in order of priority by region;

2. assessment of eligible applications by DRALGAS, with those assessed as representing value with money being ranked in order of merit against the selection criteria overall; and

3. assessment of eligible applications by the panel, with those categorised as 'Recommended for Funding' and 'Suitable for Funding' being grouped into bands to reflect relative merit.

4.55 When each stage is considered in isolation, it is generally satisfactory. However, when viewed as a whole, the merit assessment process was inefficient. Where a process involves grant proposals undergoing multiple stages of assessment, it would be expected that the results of one stage would

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83 The importance of creating and maintaining appropriate panel records was highlighted in an ANAO audit of the Energy Efficiency Information Grants Program, which found that the administering agency had destroyed records made by each panel member of the assessment of each eligible application against the merit criteria. Also, that the minutes of the panel meetings were too brief to provide any insight into the merit assessment and scoring of each eligible application. See ANAO Audit Report No.17 2012–13, pp. 61–64.

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feed into the next and thus provide a clear trail to demonstrate that the projects awarded funding were those that had the greatest merit in terms of the published program guidelines. This is particularly the case in situations (such as RDAF) where there are similarities or inter-relationships between the factors considered at each stage. In rounds three and four, however, the rankings produced at each stage were used to inform the next stage in only a limited way.

4.56 The results of the assessment of EOIs by the RDA committees were used to identify the highest priority projects in each region to proceed to full application stage. However, the relative order of priority assigned each project and the related assessment findings were not used. Reflecting this, the round four projects assessed by RDA committees as being the highest regional priority were no more successful in securing funding than lower priority projects. In round three, for example, the panel (which was not informed of the priorities) categorised as NRF the project assigned the highest priority out of the 19 projects submitted in its region, with the panel records stating, 'The Panel questioned whether this project was a local priority'.

4.57 At full application stage, the results of DRALGAS' ranking of applications against the selection criteria overall were not provided to the panel until after members had submitted their individual scores against each application. There was no reference to them in the agenda papers, the meeting minutes or in the 'Panel's Assessment Framework' that set out the methodology to be used by the panel.

Conclusion

4.58 The panel was tasked with considering the individual and relative merits of eligible applications and then recommending the most meritorious to the Minister. DRALGAS provided the panel with information and secretariat support to undertake this role. As required by the program guidelines, the panel categorised each eligible application in each round as 'Recommended for Funding' (RFF), 'Suitable for Funding' (SFF) or 'Not Recommended for Funding' (NRF).

4.59 The panel was also required by the published guidelines to rank those categorised as RFF and SFF in order of merit. The panel chose to rank large numbers of applications equally by grouping them into bands. The 95 applications categorised as RFF in round three were grouped into only three

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bands—one of which contained 66 equally ranked applications. In round four, the panel considered all 35 applications categorised as RFF as equally meritorious. Based on the underlying assessment material, the applications ranked equally were not demonstrably of equal merit. In addition, the approach adopted represented a marked decline in the degree of differentiation provided to the Minister compared to the first funding round and was not particularly helpful to inform the Minister's decision-making. Specifically, for rounds three and four the extent to which the Minister did not approve applications categorised by the panel as RFF was considerably higher than round one but the Minister did not have the benefit of applications in the SFF category being individually ranked so that it was not possible for her to work through those applications in the manner that had occurred in round one.

4.60   The panel recommended that the Minister fund the applications it had categorised as RFF. In round three, the panel also proposed that a lower level of funding be provided for three of the 95 recommended applications, reducing the total amount required to $38.3 million. This represented a considerable shortfall compared with the available funding of $50 million, a result that was inconsistent with the merit assessment undertaken by the department (a number of applications not recommended had been assessed as meeting each of the published selection criteria) and was not otherwise explained in the panel records.

4.61   In round four, the panel proposed that the grant amount be reduced for 12 of the 34 applications it had recommended. This reduced the total amount required to $172.5 million, down from the $201 million requested by the applicants. The panel also recommended that applicants be provided with a maximum grant of $10 million 'to ensure that both the impact and leverage of funds was maximised'. This was applied as a blanket cap to 25 of the applications categorised as either SFF or NRF by the panel[84], notwithstanding that applications were prepared, and project viability was assessed, on the basis of the maximum grant value being $15 million.

4.62   Similar to the first funding round previously audited by ANAO, there was not a clear trail between the pool of applications assessed as most

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84   Six of these were later approved for funding by the Minister.

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meritorious in terms of the selection criteria[85] and those recommended for funding by the panel. For example, half of the applications that had achieved ratings of 'well developed' against every selection criterion in round four were assigned to the lowest category in terms of merit, with the majority of funding instead proposed for awarding to relatively lower ranked applications (including ones rated 'poorly developed' against the two criteria assessing community and economic benefit to the region).

4.63 In these circumstances, while the panel viewed those projects it recommended as being of the highest quality, the approach the panel adopted to determining its recommendations was not consistent with a transparent, competitive, merit-based process to awarding grant funding in accordance with an assessment of applications against the published criteria. This situation reflects shortcomings both in the design of the rounds and the records of the assessment process.

4.64 Specifically:

- shortcomings were evident in the overall design of the assessment process, particularly the insufficient linkages evident between the three assessment stages (shortlisting of EOIs by RDA committees; DRALGAS' detailed assessment of applications, including against the published selection criteria; and the advisory panel's deliberations and recommendations)[86]; and

- the department's records of panel meetings, as circulated to panel members and then signed by the chair, exhibited similar inadequacies to those identified by ANAO in the audit of the first RDAF funding round. In particular, in a number of situations, either no rationale for the panel's decision was recorded or the recorded comment did not

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85   The only recorded assessment of the merits of each eligible application in terms of the published selection criteria was that undertaken by DRALGAS, the results of which was provided (together with the panel's categorisation of applications as recommended, suitable and not recommended) to the Minister to inform her funding decisions.

86   For example, the department's ranking of applications according to their relative performance against the selection criteria were not intended to form the foundation or starting point for the panel's decision making. The rankings were not provided to the panel until after members had submitted their individual scores against each application and a preliminary order of merit had been generated. Without this aid, it would have been difficult for the five panel members to effectively and consistently differentiate between projects of varying merit. A situation made particularly challenging by the nature of the rating scale DRALGAS had used, the diversity of the projects, and the large number of applications that panel members were expected to score in a short timeframe.

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clearly relate to the decision taken. As well as being inconsistent with its previous advice to ANAO that it would address the record-keeping shortcomings identified in the audit of the first funding round, the approach taken by DRALGAS contradicted the program guidelines which had stated that the rationale for the panel's decisions would be recorded.

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5. Minister's Funding Decisions

This chapter examines the advice provided to the Ministerial decision-maker on the individual and relative merits of applications, and the funding decisions then taken.

Introduction

5.1   Under the grants administration framework, Ministers must not approve a grant without first receiving written advice from agency staff on its merits relative to the program's guidelines and published criteria. This is to ensure that, where a Minister elects to assume a decision-making role in relation to the awarding of grants, they are well-informed of the assessment of the merits of grant applications and suitably briefed on any other relevant considerations.

5.2   The decision-maker for rounds three and four of RDAF was the then Minister for Regional Services, Local Communities and Territories.[87] The panel was given the task of forming the grant recommendations and DRALGAS facilitated the provision of the panel's advice to the Minister. The department was also responsible for advising the Minister on the related requirements of the grants and financial frameworks.

5.3   ANAO examined the material provided to the Minister, and the records of the funding decisions then taken, to assess whether:

- the Minister was well briefed on the assessment of the merits of eligible applications and provided with a clear funding recommendation; and

- the reasons for the funding decisions were transparent and were consistent with the requirements of the broad financial framework and CGGs.

Advice on the merits of applications

5.4   The panel's advice was intended to directly inform the Minister's decisions about the expenditure of public money. In this respect, the panel members were considered agency staff for the purposes of the CGGs.[88] This

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87   The Hon Catherine King MP.
88   Commonwealth Grant Guidelines, op. cit., paragraph 2.8.

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meant that the panel's advice was able to be relied upon by the Minister in meeting her obligation to receive written agency advice on the merits of proposed grants. It also meant that the panel's recommendations needed to be formulated in a manner that was consistent with the CGGs and with the RDAF program guidelines. Notwithstanding the clear guidance provided to the panel in this regard[89], the panel advised ANAO in July 2014 that 'this doesn't sit easily with [the] reality of how the Panel worked with the Department … To be "agency staff" would involve the Panel—necessarily—operating under the Department's management and directives'.

5.5   The panel's advice was provided to the then Minister by DRALGAS on 6 May 2013 for round three, and on 17 May 2013 for round four, as part of an 'approval brief'. Funding under each round was to be awarded using a competitive, merit-based selection process. It would therefore be expected that the advice contained in the approval brief would effectively and consistently differentiate between projects of varying merit in terms of the selection criteria and the program's objectives, and include a priority ranking of the eligible applications.

Advice on the relative merits of applications

5.6   For each round, the results of the panel's assessment of eligible applications formed the advice on the relative merits of competing applications. The approval brief included an attachment listing the eligible applications in order of the category assigned by the panel (being RFF, SFF or NRF) and, where applicable, of the band assigned (such as 'SFF Band 1').

5.7   As was outlined in paragraphs 4.19 to 4.23, and illustrated in Table 4.1, the panel's approach of banding large numbers of applications as equally meritorious offered the Minister little guidance. For example, 66 eligible applications—a third of all those received in round three—were equally ranked as 'RFF Band 2'. Further, all 34 of the applications recommended in round four were presented as being indistinguishable in terms of their relative merit.

5.8   Given the panel's advice was the culmination of a two-stage process, with DRALGAS' estimation of the assessment costs for rounds three and four

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89   ANAO's audit of the first RDAF funding round had similarly outlined that the panel members were agency staff for the purposes of the CGGs (see page 90 of Audit Report No. 3 2012–13), a situation not questioned at that time by the panel. It had also been explained to the panel by ANAO in July 2011 and March 2012.

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combined being \$944 000, it would not be unreasonable to expect a greater degree of delineation could have been provided to the Minister to better inform her decision-making.[90] In addition, providing a clear ranking of proposals aids transparency and accountability.

Advice on the individual merits of applications

5.9   As was stated in the CGGs, selection criteria are used to assess the merits of proposals. The department's was the only assessment of each application against each selection criterion undertaken in rounds three and four. The results of the department's assessment were contained in 'assessment snapshots'.[91] These formed an attachment to the approval brief, but were sent separately in hard copy format within multiple folders. The Minister was sent 192 one-page assessment snapshots for round three, and 159 assessment snapshots averaging six pages each for round four. Reflecting the absence of an assessment by the panel of each eligible application in terms of the published selection criteria, these folders constituted the only advice on the individual merit of each application against the selection criteria.

5.10   An approach that has been commonly adopted in grant programs audited by ANAO that were administered in other departments is to provide decision-makers a summary table listing the eligible applications and the ratings awarded against the selection criteria to each. According to the records DRALGAS made available to ANAO, neither the round three briefing package or the round four briefing package sent to the Minister in May 2013 contained a summary table. In the absence of summary information, the advice provided on how each RDAF application had been assessed against the selection criteria was not in a format that would have enabled the Minister to readily form her own conclusion as to how an individual application performed relative to competing applications.[92]

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90   In this respect, departmental records outline that, in June 2012, the office of the then Minister had commented to DRALGAS that the ranking of proposals assessed as SFF could restrict the Minister when the time came to consider funding recommendations.

91   These had also been provided to the panel to inform its deliberations. An outline of the assessment snapshots is in paragraphs 4.10 to 4.11, including the audit finding that approximately one third contained errors of note.

92   DIRD advised ANAO in August 2014 that 'the Department's recollection is that the summary spreadsheet was provided to the Minister, at the front of the folder containing all of the Snapshots'. However, DIRD was subsequently unable to provide ANAO with a copy of any such spreadsheet for round three or for round four to support its recollection.

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Alignment between the advice on individual and relative merit

5.11   As was outlined in Chapter 4, there was not a clear trail between the results of the assessment of applications against the selection criteria and the recommendations of the panel. The approval briefs (see paragraph 5.5) contained no acknowledgment of, or explanation for, the numerous inconsistencies between the advice on relative merit (being the panel's recommendations) and the advice on individual merit (being the results of DRALGAS' assessment against the selection criteria). For example,

- for 56 of the applications presented as being the most meritorious and so categorised as RFF, the Minister was at the same time advised that the application had been assessed as not adequately meeting one or more of the published criteria; and

- for 50 of the applications placed in the lowest category of NRF, the Minister was provided with information stating the application had met each of the published criteria.

5.12   As a result, the Minister was provided with contradictory information upon which to identify the most meritorious applications for funding approval in the context of the published program guidelines. DIRD's view in this regard, as advised to ANAO in August 2014 in response to preliminary audit findings, was:

> The Department does not accept that the Minister received contradictory material from the Department and Panel. Rather, the advice from the Panel complemented that of the Department and provided a further source of advice to inform the Minister's decision.

5.13   The similar situation that had been identified during the ANAO audit of the first funding round had underpinned the following recommendation:

> ANAO recommends that, consistent with the key principles for grants administration outlined in the Commonwealth Grant Guidelines, [DRALGAS] improve the documentation provided to the Minister in respect to the assessment of individual eligible applications against the published criteria to promote a clear alignment between these assessments and the order of merit for funding recommendations.[93]

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93   ANAO Audit Report No.3 2012–13, op. cit., p. 87.

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5.14   DRALGAS agreed to the recommendation and advised ANAO in September 2012 that a 'continuous improvement process will facilitate the review and enhancement of documentation provided to the Minister to ensure that the outcomes of the assessment align with the order of merit for funding recommendations'.[94]

5.15   However, no improvement was evident in the documentation provided to the Minister in rounds three and four in respect to the assessment of individual eligible applications against the published selection criteria in terms of promoting a clear alignment between these assessments and the funding recommendations.

5.16   By way of comparison, the approval briefs highlighted the six applications (out of the 351 considered) where the results of the department's and the panel's assessment of value with public money differed.[95] In each case, DRALGAS had identified one or more significant risks it considered were of such magnitude that the project did not represent sound value with money. Whereas the panel considered the risks could be mitigated and categorised five of the applications as RFF and the other as SFF. The panel's reasoning was also set out in the approval brief. DRALGAS could have extended this approach so as to also identify for the Minister those occasions where the department's and panel's assessment results differed in terms of merit against the selection criteria.

Funding recommendations

5.17   Adhering to the requirements of the grants administration framework, and assisting Ministers, is supported by advice that includes a clear funding recommendation in respect to each application. The applications that the panel recommended be funded in rounds three and four were clearly identified to the Minister, being those it had categorised as RFF. Any caveats the panel placed on the provision of such funding, such as recommending a reduced grant be awarded to particular projects, were also clearly set out in the approval brief.

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94   ANAO Audit Report No.3 2012–13, op. cit., p. 87.

95   This situation had not arisen in round one, as DRALGAS had considered every eligible application to represent value with public money, including those rated 'poorly developed' against every selection criterion and those with high associated risk.

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Advice on potential underspend in round three

5.18 In round three, the panel recommended the Minister award grants totalling $11.7 million less than the $50 million available. The only explanation given was that 'the Panel considers that projects which are Recommended for Funding are the most meritorious of those which it considered'.

5.19 DRALGAS' approval brief had advised the Minister that she may: 'choose to allocate less than $50 million (as proposed by the Panel) if you do not consider that some projects contribute to the objectives of the program as significantly as others'. In expectation that the Minister would award less than the funds available, the brief included draft correspondence to the Prime Minister seeking approval to transfer unspent funds in round three to round four. The Minister approved substantially less than the funding available on round three projects. The correspondence was finalised and signed by the Minister on 14 May 2013, and stated:

> I seek your agreement to allocate the remaining, unspent funds of $18.863 million from Round Three to Round Four. The Government has received 163 applications for Round Four for larger flagship and strategic infrastructure projects. Grants of $938 million have been requested for a total project value of $3.7 billion. Projects are of a high quality and offer real benefits to a large number of regional communities. Many projects span a number of regional communities and thus have a broader regional reach. I consider that the unspent funds could be effectively utilised in supporting these key projects, and in ensuring that the benefits of the program are maximised. I note that investing unspent Round Three funds in Round Four is consistent with the agreement with the Independents, which commits the Government to significant investment in regional Australia.

Advice on awarding an additional $18.9 million in round four

5.20 On 30 May 2013, the then Prime Minister agreed to the proposed reallocation of funds. As a result, funding available under round four increased from the original $175 million allocation to $193.9 million. In this regard, the round four approval brief stated 'The Department recommends that you draw from the Suitable for Funding group and apply all considerations that were used in previous decisions'. Even if the Minister were to consider only those within the highest band of the SFF category, she was still referred to a $40.6 million pool of equally ranked applications from which to award $18.9 million, with no advice from the panel as to which of those applications demonstrated the greatest merit in terms of the published criteria.

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Such advice further highlights the limitations of the panel's approach of broad-banding applications (see paragraphs 4.19 to 4.23).

Advice on awarding an additional $5.5 million

5.21 On 21 June 2013, DRALGAS sought the Minister's agreement to the early termination of a funding agreement with the Newcastle City Council for a round one RDAF project. The project was unable to proceed as planned due to difficulties with securing partner funding. The written briefing also advised the Minister that:

> If you agree to terminate this project, funding of $5,450,192, which has not yet been paid to the Council, will become uncommitted and available to be allocated to another project. You, as the appropriate Delegate[96], could choose to allocate these funds to a proposal submitted for consideration under RDAF Round 4.

5.22 To inform the Minister's decision on the reallocation of the $5.5 million that would become available from the Newcastle City Council project, the briefing included a scanned copy of her round four funding decisions. This comprised a list of the applications, as categorised by the panel, which had been annotated and signed by the Minister when recording her round four funding decisions. The list contained 118 unfunded round four applications seeking $701.6 million from which to award the $5.5 million. The extent of the advice provided that would assist the Minister to identify the most meritorious from this list was that:

- 13 applications (seeking $101.3 million and recommended for reduced funding of $80.7 million) had been equally ranked as RFF by the panel;

- five applications had been equally ranked SFF Band 1 and a further seven equally ranked SFF Band 2; and

- 93 applications were categorised as NRF and were unranked. [97]

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96   When approving the spending of public money, Ministers are not acting under delegation as the financial framework provides them with the power to take these decisions.

97   The Minister decided to award the $5.5 million to a round four project from the NRF category that was located in Glendale, nearby the terminated Newcastle project. The Commonwealth was already contributing $7 million to this project under RDAF round two. The existing funding agreement was varied, resulting in an increase to the Commonwealth's contribution and a decrease in the scope of works.

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5.23   The above situation again highlights the shortcomings of the broad-banding approach adopted by the panel as an aid to decision-making. The panel's approach also does not sit comfortably with the obligation to provide Ministers written advice on the merits of proposed grants.

5.24   The brief did not explain why DRALGAS only presented the round four proposals as potential candidates for the additional $5.5 million. Given funding decisions had been taken and announced under both rounds three and four by 21 June 2013, it is not apparent why the unfunded round three proposals would not also be presented to the Minister. In December 2013, ANAO invited DIRD to explain the basis for this approach. DIRD's responses of February 2014 and August 2014 did not specifically address the question asked.

Minister's funding decisions

5.25   Overall, the Minister decided to approve 79 applications for a total of $31.1 million in round three and 42 applications for $195.2 million in round four. The sequence of events in terms of advice being provided, and funding being approved, is set out in Table 5.1. Of particular note is that the Minister's Office received the round four applications prior to the Minister making her round three decisions and prior to receiving the round four approval brief. Where decision-makers are provided with copies of the applications, it is more common for this to occur at the same time as the agency advice is provided on the merits of the applications.

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Table 5.1: Sequence of events

Date	Event
6 May 2013	Round three approval brief sent to the Minister
8 May 2013	Round four applications sent to the Minister's Office
9 May 2013	Round three applications sent to the Minister's Office
9 May 2013	Round three approval brief signed, and 79 applications were approved
13 May 2013	Minister advised DRALGAS that one application had been inadvertently approved instead of another. After the correction, a total of 79 applications had been approved for $31.1 million in round three
17 May 2013	Round four approval brief sent to the Minister
30 May 2013	Prime Minister agreed to reallocate $18.9 million from round three to round four
30 May 2013	Round four approval brief signed, 39 applications approved for $187.5 million
6 June 2013	Minister advised DRALGAS that she had inadvertently marked two applications as not approved in round four but her intention was to approve them for a total of $2.3 million
21 June 2013	Brief sent to the Minister seeking agreement to terminate a round one project and advising that she could choose to reallocate the $5.5 million to a round four application
24 June 2013	Minister approved $5.5 million for a round four application, bringing the total to 42 applications approved for $195.2 million in round four

Source: ANAO analysis of DIRD records.

Round three funding decisions

5.26   The Minister decided to award funding to 79 of the 192 eligible applications that competed in round three. As illustrated in Table 5.2, there was not a strong degree of alignment between the Minister's funding decisions and the panel's recommendations. On 40 occasions, the decision made by the Minister diverged from that recommended by the panel in round three. These comprised:

- the rejection of 28 applications recommended by the panel for $12.2 million in grant funding (29 per cent of applications categorised as RFF); and

- the approval of 12 applications for $5.1 million (16 per cent of all funding awarded) that had been categorised by the panel as other than RFF. This comprised:

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–   three applications involving $1.5 million in the SFF category; and

–   nine applications involving $3.6 million in the NRF category.

Table 5.2:   Minister's funding decisions in round three

Category	Applications rejected for funding[1]	Applications approved for funding	Approval rate
Recommended for funding by the panel			
RFF Band 1	No applications rejected	25 approved for $10.3 million	100%
RFF Band 2	27 rejected for $11.7 million	39 approved for $14.7 million	59%
RFF Band 3	1 rejected for $0.5 million	3 approved for $1.1 million	75%
Not recommended by the panel			
SFF Band 1	10 rejected for $3.9 million	3 approved for $1.5 million	23%
SFF Band 2	7 rejected for $2.1 million	No applications approved	0%
NRF	68 rejected for $27.6 million	9 approved for $3.6 million	12%
Total[2]	**113 rejected for $45.9 million**	**79 approved for $31.1 million**	**41%**

Source: ANAO analysis of DIRD records.

Note 1:   The monetary values are as proposed by the panel and are less than that requested by round three applicants in the RFF Band 2 and SFF Band 1 categories.

Note 2:   Totals may not necessarily be the sum of the rounded table entries.

5.27   In the context of a competitive merit-based process, it would be expected that those selected for funding would have performed relatively strongly against the published selection criteria. As noted previously, the only recorded assessment of applications against each selection criterion was that undertaken by DRALGAS. The resulting merit ratings were provided to the panel and to the Minister to inform their decisions and were not subsequently amended. These merit ratings, therefore, offer the only means by which to objectively measure the relative performance of applications against the selection criteria.

5.28   In respect of their relative performance against the selection criteria, the cohort of 28 applications recommended but not approved had been rated markedly higher against the selection criteria by DRALGAS than the cohort of 12 applications that were approved from categories other than RFF (the panel had recommended that the Minister award funding only to those applications in the RFF category). For example, 68 per cent of the recommended applications that were rejected had been assessed by the department to have

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satisfied each selection criterion, whereas none of the applications approved from the SFF and NRF categories had been assessed to have satisfied each selection criterion. A comparison of the distribution of ratings awarded to these two cohorts is presented in Figure 5.1.

Figure 5.1:   Distribution by ratings awarded against selection criteria of overturn decisions taken in round three
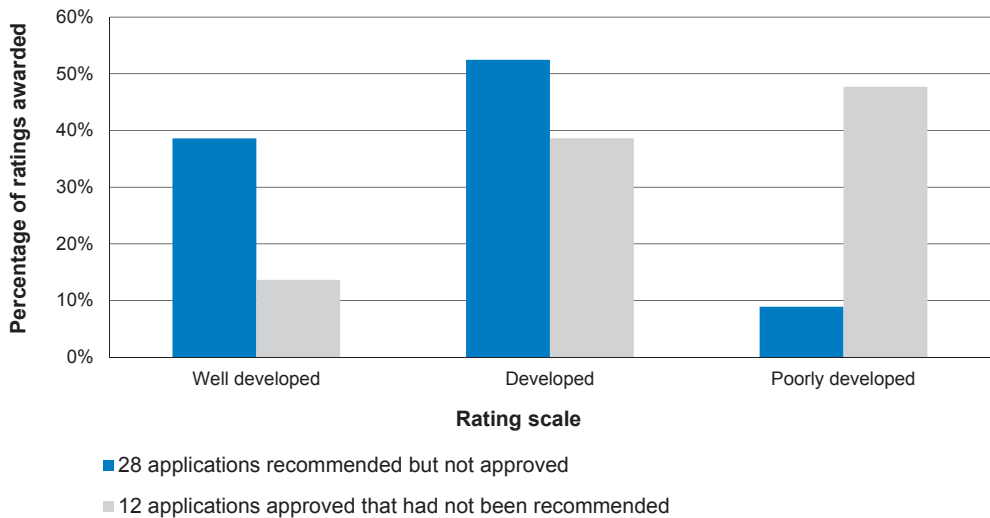
Source: ANAO analysis of DIRD records.

5.29   ANAO also examined the extent to which the 79 approved applications had been selected from the pool of applications rated most highly against the selection criteria. There was $50 million available in round three and, according to DRALGAS' assessment results, the 122 most highly rated applications were seeking $50.3 million. Of these 122 applications:

•   59 were approved (48 per cent) for $23.5 million (47 per cent of available funds);

•   63 were rejected (52 per cent) with:

    – $2.4 million (five per cent of available funds) instead awarded to five applications that had been assessed by DRALGAS as not representing value with money (three of which had also been rated relatively poorly against the selection criteria); and

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- $5.3 million (10 per cent of available funds) instead awarded to 15 applications that had been rated relatively poorly against the selection criteria[98]; and

- $18.9 million (38 per cent of available funds) instead reallocated for awarding to round four projects.

Round four funding decisions

5.30 In round four, the Minister awarded a total of $195.2 million to fund 42 of the 159 eligible applications received. In so doing, and as set out in Table 5.3, the Minister made 34 decisions that diverged from the recommendations of the panel in round four. These comprised:

- the rejection of 13 applications recommended by the panel (38 per cent of applications categorised as RFF); and

- the approval of 21 applications for $103.5 million (representing over half of all funding awarded) that had been categorised by the panel as other than RFF. This comprised:

  - seven applications involving $16.5 million in the SFF category; and

  - 14 applications involving $87.0 million in the NRF category.

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98 These 15 applications did not include the three aforementioned applications awarded funding notwithstanding they had been rated by DRALGAS relatively poorly against the selection criteria as well as not representing value with money.

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Table 5.3: Minister's funding decisions in round four

| Category	Applications rejected for funding[1]	Applications approved for funding	Approval rate
Recommended for funding by the panel			
RFF	13 rejected for $80.8 million	21 approved for $91.7 million	62%
Not recommended by the panel			
SFF Band 1	5 rejected for $36.4 million	2 approved for $4.2 million	29%
SFF Band 2	7 rejected for $29.9 million	5 approved for $12.3 million	42%
NRF	92 rejected for $440.3 million	14 approved for $87.0 million	13%
Total	**117 rejected for $587.4 million**	**42 approved for $195.2 million**	**26%**

Source: ANAO analysis of DIRD records.

Note 1:   The monetary values are as proposed by the panel and are less than that requested by round four applicants in the RFF, SFF Band 1 and NRF categories.

5.31   The cohort of 13 applications recommended but not approved in round four had been rated relatively more highly against the selection criteria by DRALGAS than the cohort of 21 applications that were approved from categories other than RFF. That is, while 62 per cent of recommended applications that were not approved had been assessed to meet each criterion, only 33 per cent of those approved from the SFF and NRF categories had been assessed to meet each criterion. A comparison of the distribution of ratings awarded each of these cohorts is presented in Figure 5.2. The difference between these cohorts is not as marked as had occurred in round three, but is still significant.

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Figure 5.2:   Distribution of ratings awarded against selection criteria of overturn decisions taken in round four

■ 13 applications recommended but not approved

■ 21 applications approved that had not been recommended
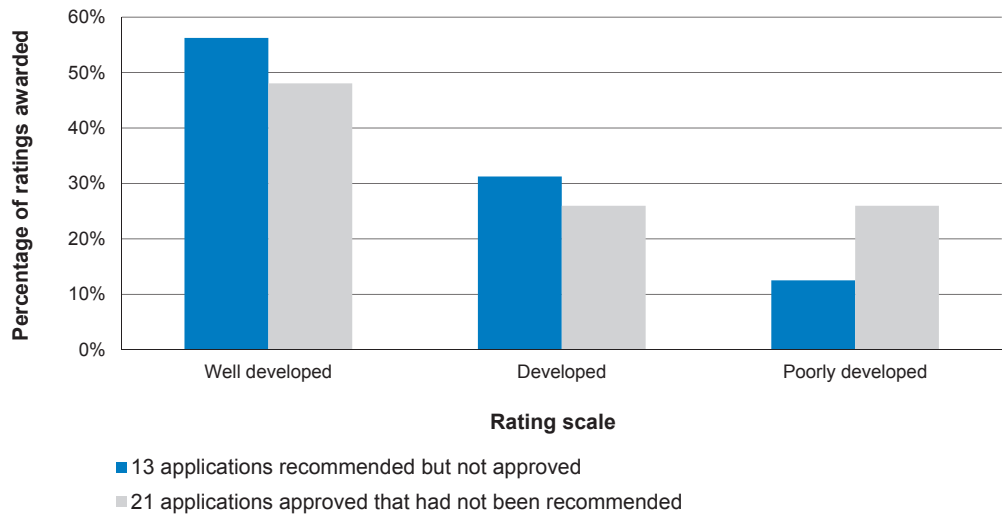
Source: ANAO analysis of DIRD records.

5.32   However, and to a greater extent than had occurred in round three, only a minority of the 42 applications approved in round four were amongst the highest performers in terms of relative merit against the selection criteria, as assessed by the department. According to DRALGAS' assessment, the applications that had performed most highly against the selection criteria overall comprised a pool of 37 applications seeking $220.3 million.[99] In the absence of additional explanation, it would be expected that the 42 applications approved for $195.2 million would have been selected from this pool. However, of the 37 most highly rated applications:

- 13 were approved (35 per cent) for $53.9 million; and

- 24 were rejected (65 per cent) with the majority of funding (72 per cent or $141.3 million) instead going to 29 applications that had performed relatively poorly against the published selection criteria, as assessed by the department.

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99   These were the applications rated either 'well developed' against each criterion by DIRD, or rated 'developed' against one criterion and 'well developed 'against each other criterion.

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Recorded bases for funding decisions

5.33 The financial framework applying to grant decision-making recognises that different conclusions can legitimately be drawn from any given set of information and evidence. Accordingly, it is open to a Minister to reach a decision different from that recommended in an agency's advice.

5.34 Where Ministers approve a grant that the agency had recommended be rejected, they are required to separately document the substantive reasons for the approval. In the interests of transparency and accountability, it is also important that they document the basis for any decision not to approve an application that the agency had recommended be funded.

5.35 At the time of RDAF rounds three and four, the FMA Regulations required that the rationale for the decision must be consistent with the CGGs, the program guidelines and any other applicable Commonwealth policies and legislation. Accordingly, where the program guidelines advised that a competitive merit-based selection process would be used, the decision-maker was necessarily required to base the rationale for the decision on the merits of the application against the published selection criteria both in an application's own right and relative to that of competing applications.

5.36 In general, where funding decisions diverged from those recommended by the panel in rounds three and four, the reasons recorded by the Minister on the approval briefs related to the expected local or regional benefits of the projects. The recorded reasons did not refer explicitly to the published selection criteria and, in some instances, were not supported by the recorded results of the assessment of the merit of applications. This approach was not consistent with the requirements of the grants administration framework.

5.37 Further in this respect, and of particular relevance to regional grant funding programs, in June 2009 the House Standing Committee tabled its Final Report on its inquiry into a new regional development funding program. The Committee supported the changes that had been made to the FMA Regulations in response to an ANAO recommendation requiring Ministers and other decision-makers to record the basis for their funding decisions, with the Committee's report observing that accountability 'stresses the importance of

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ensuring that decisions made throughout the funding process are well documented and can be adequately explained.'[100]

Decisions not to approve recommended projects

5.38 Across both rounds, the Minister decided not to fund 41 of the applications that had been recommended by the panel. As outlined later in paragraph 6.48, the substantial majority (80 per cent) of those projects were in Coalition-held electorates. This was most notably the case in round three, where 93 per cent of those recommended applications that were rejected were located in Coalition-held electorates. For round four, 54 per cent of recommended applications that were rejected were located in Coalition-held electorates.

5.39 The reasons recorded against 38 of these 41 decisions were: 'Not sufficient [local/regional] benefit compared to other projects'.[101] In four instances (11 per cent), the reason was supported by DRALGAS' assessment results. However, for the other 34 applications (89 per cent), the reasons were inconsistent with the department's ratings of 'developed' and/or 'well developed' against the two criteria assessing the economic and the community benefits. In terms of relative merit, the reference to their benefits 'compared to other projects' was not supported by the awarding of funding to 15 applications that had been rated 'poorly developed' against both of these criteria. The Minister's recorded bases did not outline how she arrived at a different view as to the individual merit of the applications against the selection criteria, or as to the panel in terms of the relative merit of these applications.

5.40 The reasons recorded for rejecting the other three of the 41 recommended applications related to the availability of alternative sources of funding. For example, while one of these applications had been rated highly by DRALGAS and was recommended by the panel, the Minister rejected it for the recorded reason 'alternative funding for saleyards available through HV Reform'. The Commonwealth was already contributing $1.1 million to this activity under the Heavy Vehicle Safety and Productivity Program, which is administered by DIRD.

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100   House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government, *Funding regional and local community infrastructure: Principles for the development of a regional and local community infrastructure funding program*, Final Report, June 2009, p. v.

101   Note that expanded wording was used in the records for one of these decisions, being 'Not sufficient local benefit. Locational disadvantage not evident for region'.

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Decisions to approve projects that had not been recommended

5.41   The Minister decided to approve 33 of the 222 applications that had not been categorised by the panel as RFF. This represents a 15 per cent approval rate in this context. More specifically, the Minister approved funding for:

- 26 per cent of the applications categorised by the panel as SFF, comprising 15 per cent of the round three applications and 37 per cent of the round four applications in that category; and

- 13 per cent of the applications categorised by the panel as NRF, comprising 12 per cent of the round three applications and 13 per cent of the round four applications in that category.

5.42   To put these figures into perspective, an earlier ANAO cross-portfolio audit that examined all grants approved by any Minister over an 18 month period between January 2009 and June 2010 identified only 24 approved grants that had not been recommended for funding, which represented an approval rate of 0.3 per cent for such grants[102], meaning the overall RDAF rounds three and four overturn approval rate was some 50 times higher.

5.43   As indicated at paragraph 5.41, the 33 approved applications that had not been recommended for funding to the Minister were those in the SFF and NRF categories. In October 2014, the Minister informed ANAO that: she had been advised by the department, and was always of the understanding, that projects in both the RFF and SFF categories were available for selection; in choosing projects from both categories she was complying with the program guidelines; and she would have reported to the Finance Minister her decisions to award funding to an application included in the SFF category if she had believed that the panel had not recommended them for funding.[103]

5.44   ANAO sought advice from DIRD on whether officers responsible for briefing the Minister on the outcome of the funding rounds had provided such advice to the Minister. In response, the department advised ANAO that:

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102   ANAO Audit Report No. 21 2011–12, *Administration of Grant Reporting Obligations*, Canberra, 24 January 2012, pp. 82–86,

103   By way of comparison, the Minister reported to the Finance Minister 22 of the 23 instances where she approved funding for an application categorised as 'Not Recommended for Funding' (see Table 6.1) with one instance not reported due to an administrative oversight by the department (see paragraph 6.13).

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The department provided advice to the Minister for RDAF Rounds Three and Four including that they were discretionary programs and that the Panel recommended 95 projects be funded at a cost of up to $38.59 million[104] under Round Three and 34 projects be funded at a cost of up to $172,474,143 under Round Four.

The department also advised the Minister that she should review the list of projects recommended and satisfy herself as to the benefits of each project. In addition should she disagree with the recommendations and choose other projects, then the reasons for these decisions should be recorded.

5.45 Setting aside the different perspectives of the Minister and the department, and focusing solely on those applications approved for funding in the NRF category, the proportion of applications approved for funding against panel advice falls (from 27 per cent) but nevertheless remains significant (at 19 per cent of all applications approved, comprising 11 per cent of approved round three applications and 33 per cent of round four applications). In this context, 13 per cent of applications categorised as NRF were approved for funding, comprising nine of the 77 round three applications in this category and 14 of the 106 round four applications in this category. In terms of the proportion of funding approved, 40 per cent ($90.6 million) was awarded to applications categorised as NRF (comprising 11 per cent of the round three funding and 45 per cent of the round four funding awarded).

5.46 ANAO analysis of the extent to which the recorded bases for decisions to approve funding for applications in the SFF and NRF categories fulfilled the intent of the requirement to record the substantive reasons for such decisions is outlined below.

Bases for approving applications from the 'Suitable for Funding' category

5.47 The Minister approved 10 of the applications that had been categorised as SFF in rounds three and four for $18.0 million. For seven of these decisions to award funding, the Minister recorded the reason as 'Support panel recommendation'.[105] This approach was consistent with the Minister's advice

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104   Note that this figure refers to the amount sought by the applicants. The panel recommended that a lower level of funding be provided to three of the applicants, reducing the amount required to $38.3 million.

105   The Minister had also recorded 'support panel recommendation' as the basis for approving 82 of the applications that had been recommended for funding by the panel. Where the awarding of a grant is consistent with agency advice, then the decision-maker can point to that advice as representing the recorded basis for the decision.

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to ANAO in October 2014 that: she viewed applications included in the SFF category as available for selection similar to those categorised as RFF; in choosing projects from both categories she was complying with the program guidelines; and she did not need to report the approval of applications categorised as SFF to the Finance Minister. However:

- the department outlined to ANAO that it had: briefed the Minister that rounds three and four involved discretionary grant funding; identified the applications the panel had recommended be awarded funding (being those in the RFF category); and advised her that she should review the list of projects recommended and satisfy herself as to the benefits of each project and that, should she disagree with the recommendations and choose other projects, then the reasons for these decisions should be recorded;

- ANAO's audit of the first RDAF funding round had outlined that the approval of funding for applications categorised as SFF involved, in the context of the grants administration framework, the approval of applications that the panel had 'recommended be rejected', and therefore should be included in reporting of such instances to the Finance Minister;

- program governance documentation for rounds three and four, including the published guidelines and the published panel operating procedures, identified that the SFF and RFF categories were to comprise applications of differing merit.[106] In this respect, advice to ANAO from the panel confirmed that it considered applications other than those in the RFF category to be 'not of significantly high quality' and 'not of a high enough standard' to be recommended for funding;

- the department's written briefings provided to the Minister, and the letters to the Minister from the panel in respect to each round, clearly identified that the panel was recommending for funding only those applications in the RFF category. Further in this respect:

  – there were sufficient round three funds available for the panel to have recommended the Minister approve all applications included in both the RFF and SFF categories, however the panel

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106   For example, see the published definition of each category at paragraph 4.34 of this audit report.

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considered that the quality of those applications in the SFF category did not support them being recommended for approval; and

– the available round four funding was insufficient to award grants to all applications in the RFF and SFF categories. In any event, the panel has advised ANAO that it was following the published program guidelines and that it did not feel that it was appropriate to recommend projects that it considered were not of a high enough standard.

5.48 Nevertheless, the Minister's advice to ANAO highlights that the 'Suitable for Funding' descriptor was not a particularly helpful descriptor. This situation also underscores the benefit of DIRD, in future granting activities, providing a clear statement for each grant proposal to either approve or reject the proposal.

5.49 In relation to the other three applications approved from the SFF category:

• no reason was given against one;

• the reason recorded against another one was 'more meritorious than others in category', which does not explain why the Minister reached a different conclusion:

– than the panel, which considered all 13 applications in SFF Band 1 to be of equal merit in round three;

– than DRALGAS, which assessed it as being of equal or lesser merit than nine other applications in the SFF category in round three which were rejected by the Minister; and

• the reason recorded against the third decision was 'this community is an isolated community which is frequently cut off by floods/snow and health service is the major centre point of the community', which was consistent with DRALGAS' assessment of the project's community benefits.

Bases for approving applications from the 'Not Recommended for Funding' category

5.50 The Minister also approved 23 of the applications that had been categorised as NRF for $90.6 million. That is, 40 per cent of the total funding

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awarded under rounds three and four went to applications drawn from the lowest category in terms of merit.[107] A clear rationale setting out each project's individual and comparative merits would be expected given these 23 applications were approved in preference to the 70 applications from within the higher ranked RFF and SFF categories that had been rejected. Further, given 19 of the 23 applications had been rated 'poorly developed' against one or more of the selection criteria, including two assessed as not being value with money by both DRALGAS and the panel due to their significant risks.

5.51   Against 12 of the 23 decisions taken, the recorded reason was a variation of the phrase: 'Based on my knowledge and expertise I have judged this to have strong regional benefit'. In recognition that Ministers bring such knowledge and expertise to the decision-making process, the grants framework provides for Ministers to approve grants that agencies have recommended be rejected. However, in so doing, the financial framework required that Ministers must also record, in writing, the basis for the approval of the grant, relative to the grant guidelines and the consideration of value with public money. A generic reference to the program's objectives and the exercising of independent judgement does not substantively fulfil this recording obligation.

5.52   In relation to the other 11 decisions taken:

• no reason was recorded for two decisions;

• a statement that the project offered local or regional benefits was made against four decisions, but the nature of the benefit was not identified (for example, 'Important local community significance'); and

• against the other five decisions, a statement that the project offered a particular local or regional benefit was made (for example, 'Regional aviation infrastructure significant local benefit—priority').

Results of funding decisions

5.53   A recurring theme in ANAO's audits of grants administration over many years has been the importance of granting activities being implemented

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107   In terms of their distribution by political party, of the 23 projects approved: 13 (57 per cent) were in ALP-held electorates; five (22 per cent) were in an electorate held by an Independent; four (17 per cent) were in Coalition-held electorates; and one (4 per cent) was on Norfolk Island.

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in a manner that accords with published program guidelines. Similarly, the grants administration framework was developed based, in part, on recognition that potential applicants and other stakeholders have a right to expect that grant funding decisions will be made in a manner, and on a basis, consistent with the published program guidelines. Further in this respect, reflecting their importance, the guidelines for each program represent one of the policy requirements that proposed grants must be consistent with in order to be approved for funding.

5.54 Funding under rounds three and four was to be allocated according to a competitive merit-based selection process. The published program guidelines clearly set out the selection criteria against which applications would be judged. As noted at paragraph 3.55, applications that do not satisfactorily meet the published selection criteria are most unlikely to represent value with public money in terms of the program's guidelines and objectives. Further, as DRALGAS acknowledged in its advice to the Minister in the rounds three and four approval briefs: 'The selection criteria published in the RDAF Program Guidelines provide a procedural mechanism that is publically available and, which in combination, effectively manifest the RDAF Program objectives'.

5.55 In accordance with the then applicable FMA Regulation 9[108], it was appropriate that factors in addition to the results of the assessment of applications against the selection criteria are considered when selecting candidates for funding. For example, to ensure that each project has a risk profile that is acceptable to the Commonwealth and that the population of projects selected maximises the achievement of the specified program objectives within the available funding. Any such additional considerations applied should be consistent with the published program guidelines and stated policy objectives. They should also be clearly documented so as to fulfil the obligation to record the basis for approving grant funding and to demonstrate that the selection of applications for funding was undertaken in a consistent, transparent and accountable manner.

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108 FMA Regulation 9 prohibited an approver from approving a spending proposal unless satisfied, after undertaking reasonable inquiries, that giving effect to the proposal would make proper use of Commonwealth resources that is not inconsistent with the policies of the Commonwealth. 'Proper use' was defined as being 'efficient, effective, economical and ethical use' of the Commonwealth resources.

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5.56 However, in the context of a competitive merit-based grants selection process, it is difficult to view the results as demonstrating that the projects awarded funding were those that had been assessed as having the greatest merit in terms of the published selection criteria. In summary, of the 121 applications ultimately approved for funding in rounds three and four:

- 53 applications (44 per cent) had been assessed by DRALGAS to have satisfied each selection criterion; and

- 68 applications (56 per cent) had been assessed by DRALGAS to not satisfy one or more of the selection criteria.[109]

5.57 The above outcome was not a necessary consequence of the quality of available candidates.[110] Among those that remained unfunded, there were 79 applications seeking a total of $292.1 million that had been assessed as satisfying each selection criterion and as representing value with money. These included 27 applications that had been recommended for funding by the panel. In response to an ANAO survey of a sample of unsuccessful applicants, two of the applicants in this situation made the following comments to ANAO:[111]

- Our application met and in most cases exceeded the criteria set, in order to be successful. We were told our application could not have been any better, it met all criteria and there was no justification for it to be unsuccessful other than the desire of the Minister at the time.

- Projects that had been assessed through the identified process and not recommended were funded ahead of recommended projects. Given applicants were asked to follow a merit based selection process it is disappointing that this wasn't used as the basis for awarding the funding.

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109 See also the merit analysis relating to applications approved in round three at paragraph 5.28 and in round four at paragraph 5.31.

110 By way of comparison, an ANAO audit of the Building Better Regional Cities Program identified that emphasis had been given to spending all available program funding, notwithstanding that the recommended applications were expected to deliver below the program's target number of affordable homes and that most of the applications had been assessed by the administering agency as lacking sufficient merit and/or as not providing value for money (ANAO Audit Report No.25 2013–14, pp. 70–73)

111 See also from paragraph 6.43 for further survey responses on the impact on projects of unsuccessful applications.

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Conclusion

Advice to the Minister

5.58 DRALGAS provided an 'approval brief' to the then Minister on 6 May 2013 for round three and on 17 May 2013 for round four. The advice provided to the Minister on the relative merit of competing applications were the results of the panel's assessment. However, the approach taken by the panel offered the Minister limited assistance in delineating the relative merits of competing applications. For example, the 95 applications the panel recommended for funding in round three were grouped into only three bands to denote their relative order of merit, while all 34 applications recommended in round four were presented as being equally meritorious. By way of comparison, the panel had individually ranked each of the recommended applications in round one.

5.59 The advice provided to the Minister on the individual merit of each application, including the ratings awarded against each selection criterion, was contained within the 'assessment snapshots' that had also been provided to the panel. These formed an attachment to the approval brief but were submitted separately in hard copy folders containing 192 one-page assessment snapshots for round three and 159 assessment snapshots (averaging six pages each) for round four. It was not in a form that would allow the Minister to readily compare the performance of competing applications. Further, and similar to the first funding round, there were inconsistencies between the panel's categorisation of applications and resulting funding recommendations and the material provided to the Minister by the department as to how each application had been assessed in terms of each of the published selection criteria.[112]

5.60 A similar situation had occurred in the first funding round and, in response to a related ANAO recommendation, DRALGAS had advised it would review and enhance the 'documentation provided to the Minister to ensure that the outcomes of the assessment align with the order of merit for funding recommendations'. However, no improvement was evident in this regard.

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112 For example, for some applications recommended by the panel, the Minister was at the same time advised by the department that the application had been assessed as not adequately meeting one or more of the published criteria. Similarly, there were applications not recommended for funding by the panel where the Minister was provided with information indicating the application met each of the published criteria to a high standard. There was no acknowledgement or explanation provided to the Minister for such inconsistencies.

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Recommendation No.3

5.61 To improve the quality and clarity of advice provided to decision-makers, ANAO recommends that in future advice on the merits of proposed grants where funding is to be allocated using a competitive merit-based selection process, the Department of Infrastructure and Regional Development provide advice that:

(a)   clearly and consistently establishes the comparative merit of applications relative to the program guidelines and merit criteria; and

(b)   includes a high level summary of the assessment results of each of the competing proposals in terms of their merit against the published criteria.

DIRD's response:

5.62   *Agree.*

Funding decisions taken

5.63   In May 2013 the Minister approved 79 projects for funding of $31.1 million from the $50 million available for allocation under round three. The decision resulted in $18.9 million (38 per cent) of funding intended for projects in small towns under round three to be reallocated to projects under round four. By late June 2013 the Minister had awarded $195.2 million to 42 round four projects, compared with the $175 million originally announced as being made available under the fourth round.[113]

5.64   A feature of the Minister's decision making was the lack of strong alignment between the funding decisions taken and the panel's recommendations—nearly half of the funding awarded (48 per cent) went to applications that been categorised as other than 'Recommended for Funding'. In total, 74 decisions were taken by the Minister over rounds three and four that diverged from the advice of the panel. These comprised:

- the rejection of 41 projects that had been recommended for funding of $93 million; and

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113   In this respect, at funding approval stage, a total of $199.4 million was available. This comprised the original allocation, $18.9 million reallocated from the underspend in round three and $5.5 million that became available following the early termination of a round one funding agreement.

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- the approval of 33 projects (27 per cent of the total number approved) that had not been included by the panel in the RFF category, which were awarded $109 million in funding.

5.65 It is open to a Minister to reach a decision different from that recommended. In such cases, it would be expected that the recorded basis would outline how the decision-maker arrived at a different view as to the application's individual and comparative merits relative to the published selection criteria. However, none of the recorded bases for the 74 decisions identified above contained a direct reference to the selection criteria. Rather, the records tended toward generalised statements such as 'based on my knowledge and expertise I have judged this to have strong regional benefit.'

5.66 Further, the decisions taken resulted in a further move away from alignment with the recorded assessment of the merits of individual applications in terms of the published criteria. Of the 121 applications approved for funding in rounds three and four, only 53 applications (44 per cent) had been assessed by the department as satisfying every selection criterion.[114] It is difficult to see such a result as being consistent with the transparent, competitive merit-based selection process outlined in the published program guidelines.

5.67 The Minister has informed ANAO that: she had been advised by the department, and was always of the understanding, that projects in both the RFF and SFF categories were available for selection; in choosing projects from both categories she was complying with the program guidelines; and she would have reported to the Finance Minister her decisions to award funding to an application included in the SFF category if she had believed that the panel had not recommended them for funding.[115] In this context, focusing solely on those applications approved for funding in the 'Not Recommended for Funding' category, the proportion of applications approved for funding against panel advice falls (from 27 per cent) but nevertheless remains significant (at 19 per cent of all applications approved, comprising 11 per cent of approved round three applications and 33 per cent of round four applications).

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114 Among those rejected for funding were 79 applications seeking a total of $292.1 million that had also been assessed as satisfying each selection criterion and as representing value with public money.

115 By way of comparison, the Minister reported to the Finance Minister 13 of the 14 instances where she approved funding for an application categorised as 'Not Recommended for Funding' (see Table 6.1) with the instance not reported due to an administrative oversight by the department (see paragraph 6.13).

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6.   Transparency and Accountability

This chapter analyses compliance with the grant reporting requirements of Ministers, the provision of feedback to unsuccessful applicants and the distribution of funding awarded.

Introduction

6.1   In the forward to the CGGs, the then Finance Minister stated that the Government is 'committed to ensuring that grant decisions are made in an equitable, transparent and accountable way'. Transparency refers to the preparedness of those involved in grants administration to open an activity and its processes to scrutiny. This involves providing reasons for all decisions that are taken and the provision of information to government, the Parliament and the community. Accountability involves agency staff and Ministerial decision-makers being able to demonstrate and justify the use of public resources to government, the Parliament and the community.

6.2   Accordingly, the grants administration framework has a particular focus on the establishment of transparent and accountable grant decision-making processes. In the context of the requirements of the grants administration framework, ANAO examined the:

- obligation to report to the Finance Minister instances where a Minister approves a grant in his or her own electorate, as well as the approval of any applications that were recommended for rejection;

- provision of feedback to unsuccessful applicants, including on the assessment results and funding decisions taken[116]; and

- the geographic and political distribution of grants, factors that have often been seen as indicators of the general equity of access to a program, as well as the program's effectiveness in targeting funding in accordance with the stated policy objectives.

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116   This chapter examines the feedback provided by DRALGAS at full applications stage. Feedback at the expression of interest stage was provided by the RDA committees, as outlined in paragraph 2.22.

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Reporting of funding decisions

6.3 Effective disclosure and reporting arrangements for grants decision making are important elements of transparency and public accountability. Since January 2009, there has been a requirement for Ministers to report two types of grant decisions seen as 'sensitive and potentially controversial'. Ministers must report to the Finance Minister each instance in which they approve a grant in their own electorate and/or approve a grant which the agency had recommended be rejected. These requirements were set out in the CGGs, and are intended to provide assurance on the integrity of decision-making in granting activities.

Approval of grants in own electorate

6.4 If a Minister (excluding a Senator) approves a grant in their own electorate, they must write to the Finance Minister as soon as practicable advising of the details. The then Minister for Regional Services, Local Communities and Territories[117] exercised the role of decision-maker for the third and fourth rounds of RDAF. The Minister approved funding for a round four project located in her electorate of Ballarat, being $2.7 million towards the redevelopment of a regional soccer facility.[118] The Minister then promptly reported the decision to the Finance Minister.

Approval of grants that the agency recommended be rejected

6.5 Where a Minister (including a Senator) approves a grant that the relevant agency had recommended be rejected, they must report each instance annually to the Finance Minister. In the first four rounds of RDAF, the advice of the RDAF advisory panel constituted the advice of 'agency staff' for the purposes of the CGGs.

6.6 As previously explained, the panel categorised each eligible application as 'Recommended for Funding' (RFF), 'Suitable for Funding' (SFF) or 'Not Recommended for Funding' (NRF). The panel then recommended for funding approval those in the RFF category. Accordingly, all applications in the SFF and NRF categories had not been recommended by the panel. The number of

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117 The Hon Catherine King MP.

118 The application had been categorised as 'Suitable for Funding' and so was not amongst those recommended by the panel. The basis for the Minister's decision as recorded by her on the approval brief was: 'Support panel recommendation NB—letter to F Minister required'.

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applications approved from each category, and the number then reported to the Finance Minister, is provided in Table 6.1. In total, 53 applications that had not been recommended by the panel were approved for $188 million. This equates to one quarter of all applications approved and one third of all funding approved under the program.

Table 6.1:   Grant approvals reported to the Finance Minister

	Recommended for funding	Applications that were not recommended for funding			
	Recommended for Funding	Suitable for Funding		Not Recommended for Funding	
	Approved	**Approved**	**Reported**	**Approved**	**Reported**
Round one	21	14	0	0	0
Round two	40	6	0	0	0
Round three	67	3	0	9	9
Round four	21	7	0	14	13
Total	**149**	**30**	**0**	**23**	**22**

Source: ANAO analysis of DIRD records.

6.7   In August 2014, DIRD advised ANAO that:

> The Department does not agree with the ANAO's interpretation of the status of projects which were classified as 'Suitable for Funding'. Projects were classified into three groupings.

> Projects which were classified by the Advisory Panel as 'Suitable for Funding' were considered to be meritorious and may be appropriate for funding …

6.8   While DIRD's view reflects a plain reading of the category title 'Suitable for Funding', the department's advice does not reflect the actions or expressed view of the panel, or that those applications categorised as RFF had been assessed by the panel as being the most meritorious. For example, in round three, the panel recommended grants totalling $11.7 million less than the funding available. If the panel had considered the 20 applications it had categorised as SFF, seeking $7.6 million, were 'meritorious and may be appropriate for funding' then there was more than sufficient funding available to have recommended them. In this context, the panel had advised ANAO in July 2014 that:

> In relation to … the Panel recommending less than the maximum of $50M worth of projects to the Minister for Round 3, the view of the Panel was that it

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recommended only those projects that it collectively believed to be of the highest quality. Those that were not recommended to the Minister were, in the view of the Panel, not of significantly high quality … the Panel would point out that in identifying projects that were 'Recommended for Funding' and others that were 'Suitable for Funding', the Panel was following the guidelines for consideration of projects. … the Panel did not feel that it was appropriate to recommend projects that were not of a high enough standard.

DRALGAS' approach to the reporting requirement

6.9   In round one, the panel had recommended 25 applications for funding. DRALGAS advised the then Minister that the approval of any applications other than these 25 would require reporting to the Finance Minister. In addition to approving 21 of those recommended, the Minister decided to approve 14 applications that had been categorised as SFF and so had not been recommended. However, the report to the Finance Minister for the 2011 calendar year, which was prepared by the department and then signed by the Minister, did not identify these 14 decisions. This oversight was brought to the department's attention by ANAO during the audit of round one. The department then advised ANAO in July 2012 that it had prepared a brief to the Minister and draft correspondence from the Minister to the Finance Minister reporting the 14 decisions.[119]

6.10   As part of the audit of rounds three and four, ANAO examined the July 2012 brief that DRALGAS had provided its Minister on the reporting of the 14 decisions in round one. Rather than advising the Minister to report the 14 decisions, the brief recommended that the Minister '**consider** signing the attached letter to the Minister for Finance, in the interest of transparency' *[ANAO emphasis added]*. The associated advice included:

> In discussions with the ANAO in their audit of RDAF Round One, they have advised that they interpret all projects beyond those 'Recommended for Funding' as recommended be rejected for funding. The Department disputes this interpretation[120] and only considers those projects in the 'Not Recommended for Funding' category as recommended be rejected.

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119   ANAO Audit Report No.3 2012–13, op. cit., p.105.

120   The department had not advised ANAO that it disputed the audit finding. Further, this advice does not reflect the design of the program or that the panel, in each funding round, had recommended for funding only those projects it had included in the RFF category (in this latter respect, see further at paragraph 6.8).

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6.11   The brief was returned to DRALGAS by the Minister's Office unsigned. The 14 grants that had been approved for a total of $50.5 million in round one, but had not been recommended by the panel, were not reported to the Finance Minister. Similarly, in line with DRALGAS' advice, the approval of a further 16 applications from the SFF category across rounds two, three and four were not reported to the Finance Minister. The non-reporting of these decisions to the Finance Minister was then compounded by the department also not providing an adequate response to a question raised at Senate Estimates in relation to the extent to which the Minister had approved projects other than those recommended by the panel.[121]

6.12   It is clear that the panel had not recommended to the Minister that the applications in the SFF category be funded, consistent with the panel's perspective that those grants were not of a high enough standard (see paragraph 6.8).[122] Whereas, DRALGAS' approach to the Ministerial overturn reporting obligation leaves applications categorised as SFF as having been neither recommended for funding nor recommended for rejection. That is, accepting the department's approach to the reporting obligation would mean that no funding recommendation was made to Ministerial decision-makers in respect of 207 eligible applications seeking a total of $753.2 million over rounds one to four. DRALGAS' approach of not seeking to have reported the decisions taken by Ministers to award a total of $97.3 million in funding to 30 of these applications does not sit comfortably with the:

- obligation that Ministers receive agency advice on the merits of grant applications before making funding decisions; or

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121   Specifically, at the Rural and Regional Affairs and Transport Legislation Committee's budget estimates 2013–14 hearing, departmental officers were asked a series of questions concerning the number of times the Minister had approved an application in round three of RDAF that had not been recommended by the panel. Departmental officers advised that they needed to do a reconciliation first and so took the question on notice. However, the response did not address the question asked in that it did not state that the Minister had decided to approve 12 applications in round three that had not been recommended by the panel. Rather, the response involved a discussion of the decision-making arrangements and erroneously suggested that ANAO's audit of the first funding round had not raised any concerns about the documentation supporting the funding decisions that had been taken in that round.

122   The panel recommended grants totalling $15.0 million less than the allocation in round one, $1.0 million less in round two, $11.7 million less in round three and $2.5 million less in round four. Therefore, in each round, the panel could have recommended applications from the SFF category if it had considered them of sufficient merit—most notably in round three where all those in the SFF category could have been accommodated.

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- panel's July 2014 advice to ANAO (see paragraph 6.8) that any applications included in the SFF or NRF categories were not considered by the panel to be of a high enough standard to be recommended for funding.

6.13 Applications were approved from the NRF category in rounds three and four only. Although the reporting of overturns is not required until after the calendar year is completed, DRALGAS advised the then Minister in July 2013 that she had approved 22 applications from the NRF category and provided draft correspondence reporting these 22 decisions. The report was signed by the Minister and sent to the Finance Minister. As a result of administrative oversight, the department had not included a 23rd application that had been approved in June 2013 from the NRF category.

6.14 The reports to the Finance Minister must contain the details of the grant and the reason for the approval of the grant. Finance guidance on fulfilling this requirement explains:

> Include the key factors underpinning the decision that are specific to the grant. It would not be sufficient to make a general statement such as 'would make an effective and efficient use of resources', 'met the selection criteria', or 'did not agree with agency advice', etc.[123]

6.15 In the draft correspondence to the Finance Minister, DRALGAS quoted the comment made by the Minister on the approval brief as being the reason she decided to award the grant. The reason reported to the Finance Minister against 12 of the 22 decisions was variations on the phrase: 'based on my knowledge and expertise I have judged this project to have strong regional benefit'. The reason reported in respect to another decision was: 'No comment listed. Note from Minister said project was inadvertently marked as not approved but intention was to approve'. These offered little insight into the key factors specific to each reported decision. This situation highlights the importance of Ministers clearly documenting the substantive reasons for approving a grant where that decision has been made contrary to agency advice (see paragraphs 5.34 to 5.35 in regard to this recording requirement).

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123 Finance Circular No. 2013/02, *Australian Government Grants: Briefing and Reporting*, May 2013, p. 23.

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Gap in reporting obligations

6.16   Any grants approved contrary to agency advice must be reported to the Finance Minister by 31 March each year for the preceding calendar year. The CGGs did not specifically address the reporting of overturns when there has been a change in government, notwithstanding that the award of grant funding to not recommended applications in an election year would be a potentially sensitive matter.

6.17   Following the 2013 Federal election, new Ministers were sworn-in on 18 September 2013. The Department of Finance advised ANAO in June 2014, that:

> The reporting period for current ministers commenced 18 September 2013. For this period the Department of Infrastructure and Regional Development reported a 'nil' response. There is no requirement for the Department to report on decisions made by ministers of the former government.

6.18   Therefore, only grants approved contrary to agency advice between 18 September and 31 December were to be included in the 2013 calendar year report to the Finance Minister. This means that there was no requirement to report any grants approved by a Minister between January and September of 2013 that the relevant agency had recommended be rejected. Given the sensitivities involved, there would be benefit in the Department of Finance analysing and advising its Minister on administratively efficient options to have any overturn decisions taken in an election year also reported.

6.19   In this context, the Department of Finance advised ANAO in its formal response to the draft audit report (see Appendix 1) that:

> … Finance agrees that changes in government can result in some reporting gaps with respect to the ministerial reporting obligations under the CGRGs [the Commonwealth Grant Rules and Guidelines]. However, the CGRGs provide for entities to publish on their websites information on individual grants awarded.

> The development of grants.gov.au, a whole-of-government grant advertising, lodgement and reporting system, will provide a consolidated source of information on Australian Government grants and will improve transparency and accountability. Finance will explore opportunities to improve grants reporting, including the reporting of decisions where there is a change of government as part of the development of grants.gov.au. All relevant stakeholders including the ANAO will be consulted as part of this process with any changes to grants policy being a decision for the Government.

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Feedback to unsuccessful applicants

6.20 The provision of adequate feedback to unsuccessful applicants has been emphasised by the Joint Committee of Public Accounts and Audit as an important element of grant administration that promotes transparency in decision-making and improves the capacity of applicants to apply for future granting activities.[124] In each of rounds three and four, DRALGAS emailed the unsuccessful applicants shortly after funding decisions were made to advise them of the outcome. By way of comparison to round one, the email advice did not contain feedback tailored to each application. However, as in round one, applicants were offered the opportunity to receive more detailed verbal feedback.

Ineligible applications

6.21 In respect of the 17 applications that had been assessed as ineligible across rounds three and four, applicants were sent a generic email informing them that their application 'did not meet at least one of eligibility criteria set out in the guidelines'. Ten of these applicants then sought verbal feedback, in which they were advised of the specific reason that their application had been assessed as ineligible.

Eligible applications

6.22 In respect of the 230 eligible applications that were unsuccessful in rounds three and four, applicants were sent a generic email by the department advising:

> All eligible applications were considered by an independent Advisory Panel. The Panel noted that while your project would deliver benefits to regional Australia, on this occasion your application did not present as strong a case against the selection criteria as other applications.

6.23 The advice to unsuccessful applicants was a particularly inaccurate summary of events in situations where their application:

- was one of the 41 unsuccessful applications that had been recommended for funding by the panel; and/or

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124 Joint Committee of Public Accounts and Audit, *Report 423: Review of Auditor-General's Reports Nos. 39 2009–10 to 15 2010–11*, Canberra, July 2011, p. viii.

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- had been assessed as presenting a comparatively strong case against the selection criteria, such as one of the 15 unsuccessful applications that had achieved ratings of 'well developed' against every criterion.

6.24 Applicants in respect to 132 of the unsuccessful applications (57 per cent) sought verbal feedback. Departmental officers completed a 'file note' on each feedback session. The file note template included a field for rating the degree of applicant satisfaction with the feedback, as perceived by the departmental officers. The rating scale was: high, medium and low. The template also included a 'reason for decision' field.

6.25 On a third of the completed file notes, the 'reason for decision' field was populated with the ranking assigned by the panel. On these file notes, departmental officers rated 98 per cent of applicants as having 'high' satisfaction with the feedback. The 'reason for decision' field on the other two-thirds of the file notes was either blank or contained some variation of 'Panel notes not provided' or 'Not available at the time of feedback'. Only 60 per cent of applicants were rated as having 'high' satisfaction on these file notes. In this context, the importance of departmental officers having access to the results of the panel's assessment when providing feedback had been emphasised by ANAO during the audit of the first funding round.[125]

6.26 In addition to the feedback provided by the department, in July 2014 the former panel chair advised ANAO that feedback:

> ... is very important. I would point out that on several occasions, on behalf of the Panel and with the Department present, as Chairman I personally provided high level feedback to groups of applicants / prospective applicants as part of the Review of the Program and on other occasions where I was invited to speak about the program and answer questions … this approach was very well received and people clearly appreciated receiving this direct feedback about how the Panel approached its task. This was obviously not specific to individual projects—it was certainly our understanding that more specific advice and feedback was also being provided to applicants in addition to the 'reasons for decision' that were recorded on the decision slips.

6.27 Against this background, through a survey, ANAO invited 70 of the unsuccessful applicants from rounds three and four to offer their perspectives on the assessment and decision-making processes employed. In relation to

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125 ANAO Audit Report No.3 2012–13, op. cit., pp. 117–118.

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whether these processes were viewed by applicants as open, transparent and equitable, as indicated in Figure 6.1 the most common response was 'very unconfident' (26 per cent) and the least common response was 'very confident' (8 per cent).

Figure 6.1: **Degree of confidence that applications were assessed and funding awarded using an open, transparent and equitable process**
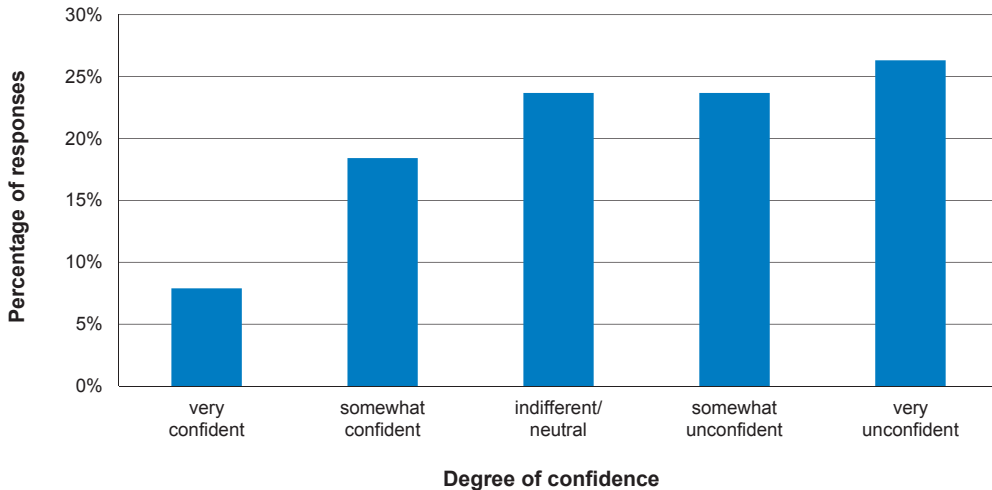
Source: ANAO analysis of applicant responses to ANAO survey.

6.28   ANAO had also asked the surveyed applicants whether they had received the following information from DRALGAS: outcome of the value with money assessment; outcome of the risk assessment; ratings against the selection criteria; and outcome of the panel's assessment. Responses varied greatly, with a third of the applicants advising they had received all four pieces of information in the feedback but a quarter advised they had received none of them. In this context, there was strong alignment between the amount of information provided in the feedback and the applicant's degree of confidence that an open, transparent and equitable process had been used. This reinforces the importance of applicant feedback being based on, and drawing attention to, the results of the assessment work that informed the funding recommendations and decisions.

6.29   In this respect, comments made by survey respondents who were somewhat or very unconfident pointed to a lack of clarity around the basis for the funding decisions in particular. For example:

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- Not enough feedback was provided on why the project was not funded despite being a recommended project.

- Our funding submission was … recommended to the Minister yet we were unsuccessful, and it is considered that Council was not provided with quality or justifiable information as to why we were unsuccessful.

- The Minister at the time is the only person that knows why we were unsuccessful—feedback from other staff in the process could not tell us.
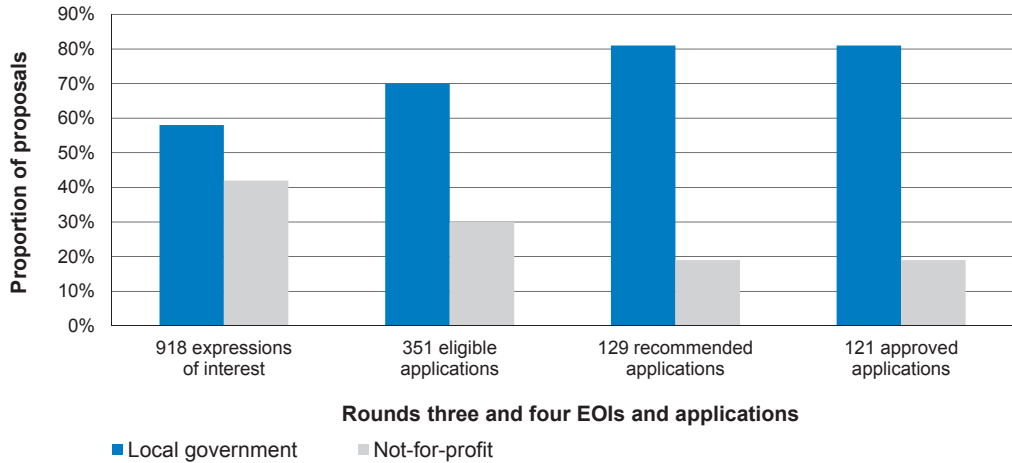
6.30 Overall, and similar to the finding made in the audit of the first funding round, ANAO analysis of the survey results and of DRALGAS' records highlighted the need to ensure officers are fully informed on the assessment and selection stages when providing feedback to applicants. This not only aids the provision of constructive feedback so as to improve the quality of future grant applications, it enables the department to explain the basis for decisions taken at each stage of the process. A lack of transparency around the basis for funding decisions in particular can negatively impact confidence in the granting process. This, in turn, may impact the willingness of applicants to compete in future granting activities.

Distribution of funding

Distribution by applicant type

6.31 Local government and eligible not-for-profit organisations could apply for funding in rounds three and four. As illustrated in Figure 6.2, not-for-profit applicants were markedly less successful than local government in securing funding. This situation arose because not-for-profit applicants were less successful in having their expressions of interest (EOIs) selected by RDA committees and in having their full application recommended by the panel. Specifically, not-for-profit organisations had submitted 19 per cent of recommended applications and 19 per cent of those approved for funding, which was significantly less than the proportion of EOIs submitted (42 per cent) and full applications lodged (30 per cent) by such organisations.
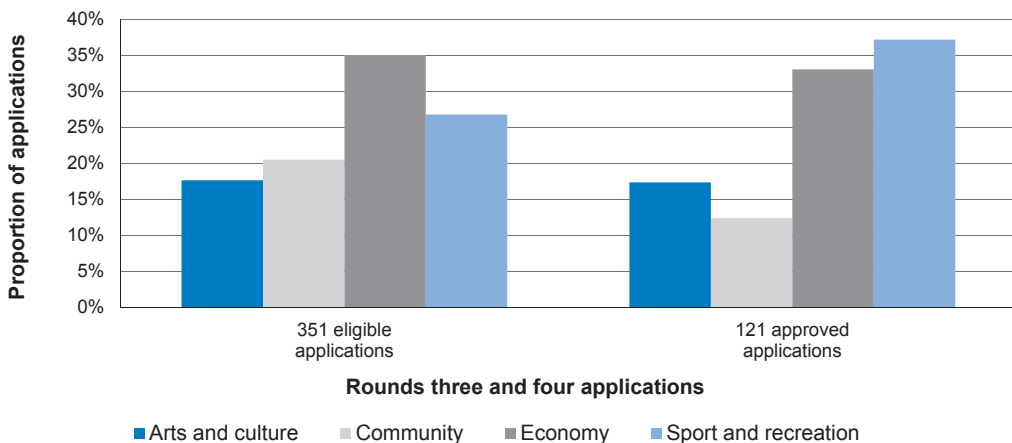
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Figure 6.2: **Distribution by applicant type**

Rounds three and four EOIs and applications

■ Local government　　■ Not-for-profit

Source:　ANAO analysis of DIRD records.

Distribution by project type

6.32　　The eligibility requirements for rounds three and four included that proposed projects relate to, or support, one of the following categories: arts and culture; the community; the economy; and/or sport and recreation. The application form asked applicants to identify the one category that best described their project. A comparison of the distribution of all eligible applications received with those funded, according to the categories identified by applicants, is provided in Figure 6.3.

Figure 6.3: **Distribution by project type**

Rounds three and four applications

■ Arts and culture　　■ Community　　■ Economy　　■ Sport and recreation

Source:　ANAO analysis of DIRD records.

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6.33 The relatively higher success rate for sport and recreation projects was consistent with panel advice to the Minister. That is, sport and recreation projects comprised 27 per cent of the eligible applications submitted, 37 per cent of those recommended and 37 per cent of those approved for funding.

6.34 The relatively lower success rate for those applications in the community category was influenced by the number of projects the panel and/or Minister noted were not a priority for RDAF as alternative sources of funding were available. These were predominately aged-care and health related projects. This situation again highlights the matter raised in paragraphs 4.54 to 4.57 of there being insufficient linkages between the three assessment stages (shortlisting of EOIs by RDA committees; the department's detailed assessment of applications; and the advisory panel's deliberations and recommendations). In this context, one applicant that had been invited to submit a full application which was then not selected on the basis that other funding sources were available for health-related projects, expressed to ANAO: 'It would have been more productive if [we] had been denied proceeding to the second round therefore avoiding extreme disappointment upon false hopes being raised'.

6.35 As illustrated in Figure 6.3, the distribution of applications approved in the arts and culture category reflected the distribution of applications submitted. Based on the categories identified by applicants, $29.8 million was approved to fund 21 arts and culture projects. However, DRALGAS identified an additional 13 projects from within the other categories that it considered would also benefit the arts and culture sector, primarily by providing performance spaces or incorporating artworks. These brought the funding provided to a total of $44.6 million, consistent with the then Government's target of allocating at least $40 million from across rounds three and four to arts and culture projects.
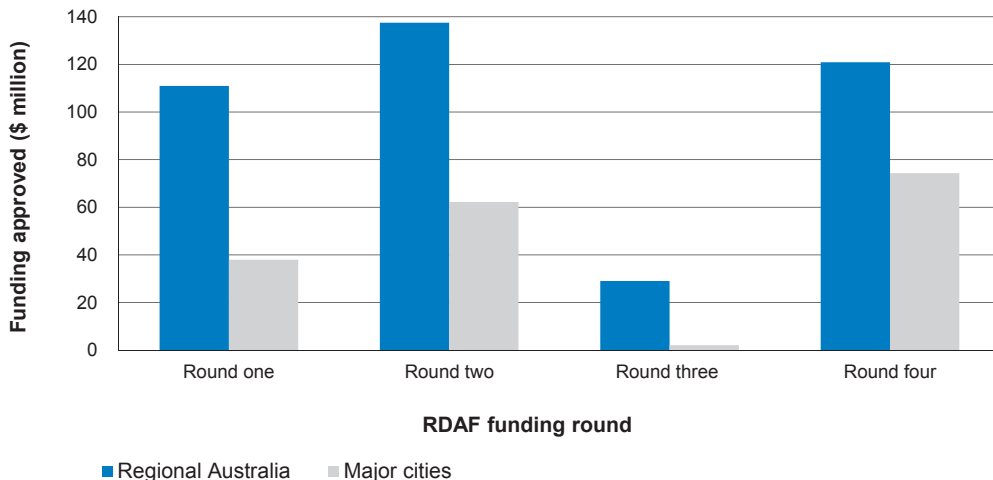
Regional distribution

6.36 RDAF was established to help deliver on the then Government's September 2010 agreement with the Independent Members for Lyne and New England, including an agreed $1.4 billion investment to support the infrastructure needs and economic growth of regional Australia. In the context of the Agreement, the definition of regional Australia was indicated by the statement 'one out of every three Australians lives in a community that is part

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of regional Australia'.[126] This equated to the population residing outside of Australia's capital cities at the time.[127]

6.37 A definition of regional Australia was introduced in the 2012–13 Budget for the purposes of reporting regional expenditure.[128] Regional Australia was defined as being all of Australia except for areas classified as major cities under the Australian Bureau of Statistics Australian Standard Geographic Classification Remoteness Structure. Using this definition, an overview of the distribution of funding awarded to projects located in regional Australia compared with that awarded to major cities is provided in Figure 6.4 for each funding round.

Figure 6.4: **Regional distribution of funding approved by round**

Source: ANAO analysis of DIRD records.

6.38 Rather than reflecting a preference for focusing the available funding on projects located in regional Australia (as defined), the award of funding in terms of regional distribution was consistent with the population of applications that

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126 Agreement between the Leader and Deputy Leader of the Australian Labor Party and the Independent Members for Lyne and New England, 7 September 2010.

127 Australian Bureau of Statistics, Catalogue number 3218.0—Regional Population Growth, Australia, 2009–10.

128 The introduction of a refined spatial reporting framework was also in response to the then Government's agreement with the Independent Members, which had included the delivery of a stronger governance and accountability framework for regional Australia. Spatial reporting was included in the requirements for Annual Reports for the 2012–13 period and then omitted for the 2013–14 period.

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had been received. Specifically, for each round, the proportion of funding approved for projects in regional Australia was within six percentage points of the proportion of that requested in eligible applications. In total, 69 per cent of the funding approved, and 64 per cent of the funding requested, was for projects located in regional Australia. This translates to:

- $398.7 million being awarded to 164 projects located in regional Australia; and

- $177.1 million being awarded to 38 projects located in major cities, meaning projects located in major cities received nearly one third (some 31 per cent) of the funding that was awarded.

6.39 The round in which the largest proportion of funding was awarded to projects located in major cities was round four at 38 per cent ($72.3 million). This included $64.6 million approved for nine projects located in capital cities. Regional Australia was a primary beneficiary of two of these projects: one was expected to more than double additional freight drawn from, and sent to, regional South Australia; while the other supported training, medical and rescue operations across southern New South Wales.

6.40 As outlined in paragraph 3.22, while round four projects were to demonstrate benefits to the broader region, they were not required to benefit regional Australia. Metropolitan regions were the primary beneficiaries of the other seven projects approved in capital cities, comprising a:

- physical activity and education centre in Cockburn, Perth[129];

- aquatic and leisure centre in Ringwood, Melbourne;

- indoor sports hub in Werribee, Melbourne;

- business hub to provide support facilities for start-up business tenants in Mulgrave, Melbourne;

- multicultural arts and sport precinct in Belmore, Sydney;

- multipurpose community facility within a larger sports precinct in Penrith, Sydney; and

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129   This project's design phase had been funded under the Commonwealth's Liveable Cities Program. The program's objective was 'to improve the planning and design of major cities that are experiencing population growth pressures and housing and transport affordability cost pressures'.

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- youth and community centre in Fairfield, Sydney.

Funding for small towns

6.41   As noted at paragraph 6.35, a target was stated for the amount of funding expected to be awarded to arts and culture projects. However, there were no targets expressed for the program in terms of the amount of funding directed towards projects located in areas other than major cities (that is, regional Australia). The closest to such a target was the Government's decision to allocate $50 million exclusively to projects in small towns through round three. According to the Minister responsible for the RDAF program at the time, the $50 million allocation was intended to 'provide a direct funding avenue for remote and disadvantaged regions, and allow them to compete for funding against similar projects and proponents'.

6.42   That there was demand from small towns for such funding is evidenced by 440 EOIs being submitted seeking $162.4 million. In this light, it is surprising that only 18 per cent of these 440 projects would ultimately be considered of sufficient merit to warrant funding under a round specifically intended to support such initiatives.[130] However, this was the result, with $18.9 million (38 per cent) of the available funding being reallocated to round four. Based on the average grant requested, the $18.9 million was sufficient to have funded an additional 47 projects located in small towns under round three or, as was the case, to fund three projects under round four (including those in major cities).

6.43   In December 2013, seven months after the funding decisions had been made, ANAO surveyed the applicants for the 45 projects seeking $18.6 million which were categorised as 'Recommended for Funding' or 'Suitable for Funding' by the panel but that were not approved by the Minister. According to the survey responses:

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130   For example, four of the eligible round three applications were approved by the Minister less than three months later under round 5B of RDAF. It is unclear why these were not therefore approved in round three, given no further information was submitted by the applicants, the program's policy objectives remained unchanged and sufficient funds were available in round three.

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- the majority had been seeking funding for more than a year before applying to RDAF, with a quarter seeking funding for over three years[131];

- none of the projects were proceeding as planned with:

    - 32 per cent proceeding but with a reduced scope and/or over an extended time period;

    - 52 per cent delayed until alternative partner funding could be sourced; and the remaining

    - 16 per cent of projects not going to proceed as a result of the funding shortfall.

6.44   For example, in relation to the impact on small towns, one of the applicants commented to ANAO that:

> The residents … are still without services that are delivered to residents in metropolitan areas. … Nothing has changed since our Round 3 submission for funding. Until State and Federal Governments look more favourably upon small country towns and Shires that do not have the rates base of smaller areas that are more heavily populated, then [the Shire] and the residents will always suffer from inequality. This project was to be the catalyst to attract further development within the township … and thus further economic development of the town and the Shire as a whole. Without major projects such as this, development will be difficult to initiate and residents will continue to be disadvantaged.

Electorate distribution

6.45   An indicator of the equity and impartiality of decision-making that is frequently applied is the distribution of approved funding across party electorates. In this context, as outlined in Table 6.2, while electorates held by the two major parties were awarded an equal portion of the $575.8 million approved in total across the four funding rounds (being 46 per cent each), this result did not align with the distribution of funding requested or recommended. Rather, and consistent with the extent to which the Coalition held electorates defined by the Australian Electoral Commission as rural or

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131   None had since secured the full amount required from an alternative partner. Two applicants had secured partial funding, with one supplementing it by increasing their loan and selling off a 'valuable community asset', and the other by diverting capital money from other communities.

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provincial[132], projects located in Coalition-held electorates had represented both the majority of the RDAF funding requested (55 per cent) and the majority of the funding recommended (59 per cent) but were less successful in being awarded funding (46 per cent).

Table 6.2:   Distribution by political party of total funding approved under rounds one to four

Party holding electorate	Funding requested in eligible applications		Funding recommended by the panel		Funding approved by Ministers	
Australian Labor Party	$875.7m	37%	$216.2m	40%	$263.0m	46%
Coalition	$1293.4m	55%	$319.7m	59%	$267.5m	46%
The Greens	–	–	–	–	–	–
Independent Member	$165.9m	7%	$8.5m	2%	$31.8m	6%
N/A (Norfolk Island)	$15.3m	1%	$0.4m	0.1%	$13.4m	2%

Source: ANAO analysis of DIRD records and Australian Electoral Commission data on 2010 Federal election results.

6.46   The distribution of funding awarded to the two major parties in each of rounds three and four is outlined in Table 6.3. For these rounds, projects located in ALP-held electorates received a disproportionate share of the funds awarded having regard to the population of eligible applications and the funding recommended by the panel. Specifically, projects located in ALP-held electorates received 51 per cent, and Coalition-held electorates received 35 per cent, of all funding awarded under rounds three and four.

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132   The Coalition held 37 (59 per cent) of the 63 electorates classified as either rural or provincial heading into the 2013 election (that is, 2010 election results following redistribution).

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Table 6.3: **Distribution by major political party of funding approved under round three and round four**

Party holding electorate	Funding requested in eligible applications		Funding recommended by the panel		Funding approved by the Minister	
Round three						
Australian Labor Party	$15.5m	20%	$6.6m	17%	$9.6m	31%
Coalition	$57.5m	74%	$29.3m	77%	$18.8m	60%
Other[1]	$4.4m	6%	$2.3m	6%	$2.7m	9%
Round four						
Australian Labor Party	$432.0m	47%	$75.9m	44%	$106.4m	55%
Coalition	$416.1m	45%	$96.6m	56%	$60.9m	31%
Other[1]	$71.1m	8%	0	0%	$27.9m	14%

Source: ANAO analysis of DIRD records and Australian Electoral Commission data on 2010 Federal election results.

Note 1: Projects located on Norfolk Island or in electorates held by Independent Members. No RDAF applications were received for projects located in the electorate held by The Greens.

6.47 The relative success rates of applications in relation to projects located in electorates held by each major political party provides another indicator of equity and impartiality. Table 6.4 compares the success rate of eligible applications for projects located in ALP-held electorates with that for projects located in Coalition-held electorates. It demonstrates that those located in ALP-held electorates were significantly more successful in each funding round. Overall, the success rate for projects located in ALP-held electorates was 37 per cent across rounds one to four, significantly higher than the success rate of 26 per cent for Coalition-held electorates.[133] It would be reasonable to expect that the factors that led to such significant differences would be readily discernable from the documented assessment and decision-making process. In this context:

- ANAO's audit of the first RDAF funding round concluded that the recorded reasons for those Ministerial funding decisions that differed from the panel's recommendations did not directly relate to the published program criteria; and

- as outlined in Chapter 5, there were a number of shortcomings with the decisions recorded for rounds three and four as to why certain

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133   Overall, the success rate for all 680 eligible applications received in rounds one to four was 30 per cent.

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recommended applications were not awarded funding, as well as the reasons for awarding funding to some of those applications that had not been recommended by the panel.

Table 6.4:   Success rates for projects located in electorates held by the major parties for each funding round

Party holding electorate	Success rate: round one	Success rate: round two	Success rate: round three	Success rate: round four
Australian Labor Party	22%	52%	60%	32%
Coalition	14%	34%	34%	21%

Source: ANAO analysis of DIRD records and Australian Electoral Commission data on 2010 Federal election results.

Note: The 'success rate' (also known as the 'approval rate') is the percentage of eligible applications received for projects located in electorates held by the political party that were approved for funding.

6.48   Against the above background, ANAO also analysed the distribution by party electorate of the Minister's overturn decisions in rounds three and four. As per the results summarised in Table 6.5, the substantial majority (80 per cent) of projects that were not approved by the Minister despite being recommended by the panel were in Coalition-held electorates.[134] By way of comparison, the majority (64 per cent[135]) of projects that were approved for funding although they had not been recommended by the panel (that is, those approved from the SFF and NRF categories) were located in ALP-held electorates.[136]

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134   This result was particularly evident in round three, where 26 (93 per cent) of the 28 decisions to reject recommended projects related to Coalition-held electorates. The other two projects rejected were in electorates held by the ALP and by an Independent Member, and the Minister decided to instead approve two projects in these electorates that had not been recommended by the panel. For round four, 54 per cent of recommended applications that were rejected were located in Coalition-held electorates

135   More specifically, projects located in ALP-held electorates comprised 67 per cent of round three decisions to fund applications that had not been recommended by the panel, and 62 per cent of round four decisions to fund applications that had not been recommended for funding by the panel.

136   The majority (61 per cent) of the 41 decisions taken by the Minister to reject recommended applications were for projects located in electorates categorised by the AEC as 'safe'. Whereas, 36 per cent of the 33 decisions to award funding to applications that had not been recommended by the panel were for projects in 'safe' electorates.

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Table 6.5: **Distribution by political party of overturn decisions taken in rounds three and four**

	Rejected from RFF		Approved from SFF		Approved from NRF	
Australian Labor Party	7	17%	8	80%	13	57%
Coalition	33	80%	2	20%	4	17%
The Greens	–	–	–	–	–	–
Independent Member	1	2%	0	0%	5	22%
N/A (Norfolk Island)	0	0%	0	0%	1	4%

Source: ANAO analysis of DIRD records and Australian Electoral Commission data on 2010 Federal election results.

Conclusion

6.49 A feature of the projects approved for funding across the first four RDAF funding rounds was that a relatively high proportion had not been recommended for approval by the panel as the panel did not see them to be of sufficiently high quality. Specifically, 53 applications that had not been recommended for funding by the panel were approved for a total of $188 million. This equates to one quarter of all applications approved, and one third of all funding approved, under the four rounds.

6.50 The extent to which funding had been approved for projects not recommended by the advisory panel was not evident from the overturn reporting to the Finance Minister that is required under the grants administration framework. One factor in this situation was that, under DRALGAS' approach to the reporting obligation (an approach that had been commented on unfavourably in ANAO's audit of the first funding round), only 22 of the decisions to award funding to a project that had not been recommended (42 per cent) were reported to the Finance Minister. Similarly, the extent to which round three funding was awarded to projects other than those recommended by the panel was not advised to the relevant Senate Estimates Committee, notwithstanding that specific questions on this matter were asked in a Committee hearing.

6.51 Experience with the third and fourth RDAF funding rounds also drew to attention a gap in the grants reporting framework. Specifically, where a change of government occurs, there is no obligation for there to be any reporting of instances prior to the election where Ministers of the former government had approved grant applications the relevant agency had recommended be rejected. For example, this meant that there was no

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requirement to report any grants approved by a Minister between January and September of 2013 that the relevant agency had recommended be rejected.[137]

6.52 In addition, there remained shortcomings in the provision of feedback to unsuccessful applicants. The approach taken for the third and fourth rounds was less robust than that adopted for the first round previously audited by ANAO, in that applicants were not, as a matter of course, provided with information specific to the assessment of their application. In this context, and also reflecting the extent to which funding was awarded to applications assessed by the panel as not being the most meritorious, an ANAO survey of unsuccessful applicants revealed that there is not a high level of confidence that the RDAF assessment and decision-making processes were open, transparent and equitable.

Distribution of funding

6.53 The distribution of funding awarded under the RDAF program has exhibited two particularly striking features. The first is that the award of funding in terms of regional distribution was consistent with the population of applications that had been received, rather than reflecting a strong preference to focus the available funding on projects located in regional Australia. Specifically, projects located in major cities were awarded nearly one third (some 31 per cent) of approved funding. This reflected that:

- projects located other than in regional Australia were eligible for funding under three of the four funding rounds; and

- in respect to the single round (the third) that was only open to applications for small towns across rural and regional Australia, while $50 million had been set aside only 62 per cent of these funds was awarded to round three applicants with the remainder reallocated to round four and awarded to other applicants (including for projects located in major cities).

6.54 Secondly, in terms of those recommended applications that were not approved for funding and those applications awarded funding despite having not been recommended, projects located in electorates held by the ALP were significantly more successful than those located in electorates held by the

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137 In its response to the draft audit report, the Department of Finance advised ANAO that it would explore opportunities to improve grants reporting, including the reporting of decisions where there is a change of government, as part of the development of grants.gov.au (a whole-of-government grant advertising, lodgement and reporting system).

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Coalition. This was not the result that might have been expected given the Coalition held more electorates located in regional Australia, and projects located in those electorates represented a greater proportion of those applications received and recommended than did projects located in ALP-held electorates.[138] In other words, projects located in ALP-held electorates had a much higher approval rate than those located in Coalition-held electorates.

6.55 In rounds three and four, projects located in ALP-held electorates received 51 per cent, and Coalition-held electorates received 35 per cent, of all funding awarded. In this context it was significant that:

- 80 per cent of Ministerial decisions to not award funding to applications recommended by the advisory panel related to a project located in a Coalition-held electorate.[139] The approach taken to recording the reasons for these decisions was less than ideal in that they did not directly address performance against each of the published criteria and, in a number of instances, did not align with the material provided to inform the funding decisions; and

- the majority (64 per cent) of projects that were approved for funding although they had not been recommended by the panel were located in ALP-held electorates.[140] Where they were recorded, the documented reasons for those decisions to award funding to applications that had not been recommended by the panel generally provided little insight as to the Minister's rationale.

Ian McPhee

Auditor-General

Canberra ACT

27 November 2014

138 Projects located in ALP-held electorates comprised 37 per cent of the funding requested where as those in Coalition-held electorates comprised 55 per cent of the funding requested (and also 59 per cent of the funding recommended by the panel).

139 This was most notably the case in round three, where 93 per cent of those recommended applications that were rejected were located in Coalition-held electorates. For round four, 54 per cent of recommended applications that were rejected were located in Coalition-held electorates.

140 More specifically, projects located in ALP-held electorates comprised 67 per cent of round three decisions to fund applications that had not been recommended by the panel, and 62 per cent of round four decisions to fund applications that had not been recommended for funding by the panel.

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Appendices

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Fund

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Appendix 1: Entities' Responses

Australian Government

Department of Infrastructure and Regional Development

– 3 NOV 2014

Secretary

File Reference: File Reference
PDR ID: EC14-001021
Contact: Contact Name

Mr Ian McPhee
Auditor-General
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Mr McPhee

Subject: Proposed Audit Report on the Design and Conduct of the Third and Fourth Funding Rounds of the Regional Development Australia Fund

Thank you for your letter of 1 October 2014 and copy of the proposed Australian National Audit Office (ANAO) audit report on the Design and Conduct of the Third and Fourth Funding Rounds of the Regional Development Australia Fund (RDAF).

This letter is written, pursuant to subsection 19(7) of the *Auditor General Act 1997*, to respond to the proposed audit report, including providing the Department of Infrastructure and Regional Development's responses to each of the three recommendations (Attachment A).

I appreciate the ANAO acknowledgement:

- that the implementation of the two-stage application process improved cost effectiveness and accessibility;
- of the continued improvement in the quality of the Department's assessment work, in particular the significant improvements in relation to eligibility checks and risk assessments; and
- of the work undertaken to improve the application lodgement and receipt processes to reduce the burden on applicants.

I also acknowledge that the audit report will assist in the future delivery of my Department's grant programmes and undertake to consider the findings of the report in the ongoing development and management of programme implementation processes.

As you are aware my Department did not have responsibility for RDAF until the new government was formed and after the completion of Rounds Three and Four. The establishment, implementation and administering body of RDAF was the then Department of Regional Australia, Local Government, Arts and Sport.

Therefore, I request that you refer at all times to the former Department of Regional Australia, Local

GPO Box 594 Canberra ACT 2601 Australia • Telephone: 02 6274 7573 • Facsimile: 02 6274 8166
Website: www.infrastructure.gov.au • ABN 86 267 354 017

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Government, Arts and Sport as a more accurate reflection of the establishment and implementation administering body that this proposed audit report covers.

The report has raised a number of significant issues that have been addressed through the Department's responses to the Issues Papers. I note that on some occasions the Department and ANAO have differing views on the issues raised in the report, however, I appreciate that both organisations are working to the same goal of providing effective grant programmes with consistent and transparent outcomes for Government.

Yours Sincerely

Mike Mrdak

October 2014

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Attachment A

Recommendation 1

To improve the efficiency and effectiveness of any future two-stage grant application process, the ANAO recommends that the Department of Infrastructure and Regional Development:

(a) include an assessment of eligibility considerations as part of the design of the expression of interest stage so as to minimise the risk of ineligible applications being received and allow the second assessment stage to focus on merit considerations; and
(b) minimise duplication of effort, and provide a clear line of sight through the assessment process, by drawing upon the results of the assessment of expressions of interest where there are similarities or inter-relationships between some of the shortlisting criteria for expressions of interest and the assessment criteria for full applications.

Response

(a) Agree to the assessment of eligibility be undertaken in stage one when a two-stage application process is undertaken unless there is an administrative or resource burden.
(b) Agree where there is alignment.

Recommendation 2

ANAO recommends that the Department of Infrastructure and Regional Development incorporate in the value with money methodology adopted in future granting activities an approach that reflects that applications assessed as not satisfactorily meeting the published merit assessment criteria are most unlikely to represent value with public money in terms of the objectives of the granting activity.

Response

Noted. In circumstances where all criteria need to be met, this will be reflected in the programme guidelines and the assessment of value with relevant money.

Recommendation 3

To improve the quality and clarity of advice provided to decision makers, ANAO recommends that in future advice on merits of proposed grants where funding is to be allocated using a competitive merit-based selection process, the Department of Infrastructure and Regional Development provide advice that:

(a) clearly and consistently establishes the comparative merit of applications relative to the programme guidelines and merit criteria; and
(b) includes a high level summary of the assessment results of each of the competing proposals in terms of their merit against the published criteria.

Response

Agree.

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Australian Government

Department of Finance

Jane Halton PSM
Secretary

Our Ref: SEC0010874

Mr Ian McPhee PSM
Auditor-General
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2617

Dear Mr McPhee

Thank you for your letter of 1 October 2014, inviting the Department of Finance (Finance) to comment (under section 19 of the *Auditor-General Act 1997*) on the ANAO's proposed report on the *Design and Conduct of the Third and Fourth Funding Rounds of the Regional Development Australia Fund.*

Finance's formal comments on the extract

Finance's comments relate to paragraph 6.18, which discusses the reporting obligation on Ministers to report to the Finance Minister, grants they have approved which the relevant agency recommended be rejected.

Finance notes the ANAO's position that: '*there would be benefit in the Department of Finance analysing and advising its Minister on administratively efficient options to have any overturn decisions taken in an election year also reported*'. Finance agrees that changes in government can result in some reporting gaps with respect to the ministerial reporting obligations under the CGRGs. However, the CGRGs provide for entities to publish on their websites information on individual grants awarded.

The development of grants.gov.au, a whole-of-government grant advertising, lodgement and reporting system, will provide a consolidated source of information on Australian Government grants and will improve transparency and accountability. Finance will explore opportunities to improve grants reporting, including the reporting of decisions where there is a change of government as part of the development of grants.gov.au. All relevant stakeholders including the ANAO will be consulted as part of this process with any changes to grants policy being a decision for the Government.

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Should you wish to discuss these comments, please contact Kerry Markoulli (Assistant Secretary, Resource Management Branch) in the first instance on (02) 6215 3538 or Kerry.Markoulli@finance.gov.au.

Yours sincerely

Jane Halton
Secretary

24 October 2014

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Appendix 2:   The Then Minister's Response

Catherine King MP
Federal Member for Ballarat

Standing Up For Our Community

Mr Ian McPhee
Auditor-General
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

3 0 OCT 2014

Dear Mr McPhee

Thank you for the opportunity to respond to the proposed audit report on the design and conduct of the third and fourth funding rounds of the Regional Development Australia Fund.

The report reflects poorly on the Audit Office, especially as your officers have chosen to conflate projects recommended as Suitable for Funding with projects Not Recommended for Funding and describe both these categories as not recommended for funding. This does not reflect the Program Guidelines for rounds three and four of RDAF that clearly state 'The Panel may choose to consider the distribution of funding of projects rated 'Recommended for Funding' or 'Suitable for Funding' in its recommendations to the Minister'.

As I advised you on 21 October – based on advice from the then Department of Regional Australia, Local Government, Arts and Sport – projects that were either Recommended for Funding or Suitable for Funding by the advisory panel were suitable for selection for funding under the program. Consistent with this advice and understanding, where I did fund projects that were Not Recommended for Funding I noted my reasoning on the DRALGAS brief and wrote to the then Minister for Finance to advise of these decisions. In doing so I fulfilled my obligations under the Commonwealth Grants Guidelines. That I did not provide this advice on projects found Suitable for Funding is consistent with this advice and understanding. This is also consistent with the briefs on both rounds of RDAF that were available to the officers conducting the audit.[1]

The effect of conflating these categories is to present a factually incorrect view of the decisions undertaken by me as Minister and inaccurately reflects what projects were funded. This different treatment serves to highlight why the presentation of your report is a distortion of the facts and totally inappropriate.[2]

Ballarat Office
5 Lydiard Street North,
Ballarat, Victoria 3350
Telephone (03) 5338 8123

Bacchus Marsh Office
Lerderderg Library,
Bacchus Marsh, Victoria 3340
Telephone 0409 855 946

Parliament House
Canberra, ACT 2600
Telephone (02) 6277 7380
Catherine.King.MP@aph.gov.au

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The report does not accurately reflect the balanced and equitable manner in which funds were distributed based on projects that demonstrated strong regional value. Specifically, the report ignores that the $226 million in funding awarded across rounds three and four of RDAF represented more than $779 million in total regional value.[3]

Across rounds three and four of RDAF 43 projects were funded in Labor held seats compared with 78 projects in Coalition, independent or other seats. Of total funding, only $116 million of the total contribution of $226 million went to Labor held seats.[4]

That this is not reflected in the final report prepared by   *[deleted]*   is both disappointing and a poor reflection on the ANAO as an otherwise professional and respected agency.[5]

Yours sincerely

Catherine King

ANAO comments:

1   The Minister reported to the Finance Minister 22 of the 23 instances where she approved funding for an application categorised as 'Not Recommended for Funding' (see Table 6.1) with one instance not reported due to an administrative oversight by the department (see paragraph 6.13). The reporting to the Finance Minister is not made public.

2   The published program guidelines provided for the panel to categorise applications as 'Recommended for Funding' (RFF), 'Suitable for Funding' (SFF) or 'Not Recommended for Funding' (NRF), with the categorisation to reflect the panel's assessment of the extent to which eligible applications met the published selection criteria (see paragraph 4.34). Similar to earlier rounds, the only round three and four applications that the panel recommended the then Minister approve for funding were those included in the RFF category. This was clearly identified to the then Minister in the panel's correspondence to her, as well as prominently in the department's covering briefing. Further, panel advice to ANAO was that applications categorised as SFF (and NRF) were not of sufficient quality to be recommended for funding. Accordingly, and similar to the approach taken by ANAO in its audit of the first funding round, this audit report identifies the extent to which the Minister decided to approve for funding applications other than those included in the RFF category. See, in particular, paragraphs 5.25 to 5.32 and Tables 5.2 and 5.3.

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3   Funding under RDAF rounds three and four was to be awarded through a competitive process based on merit. A feature of rounds three and four was the frequency with which the then Minister did not award funding to the applications recommended for funding (being those categorised as RFF) and, instead, awarded funding to applications in the SFF and NRF categories (which the panel had concluded were of lower quality than those in the RFF category). This was compounded by the records of the reasons for funding decisions taken contrary to panel advice generally providing little insight as to their basis, and particularly making no reference to the published selection criteria (including those criteria that related to the expected regional benefits from the submitted project). It is noteworthy in this context that an ANAO survey of unsuccessful applicants (see paragraph 6.27 and Figure 6.1) outlined that few respondents were confident that the assessment and decision-making processes employed for rounds three and four were open, transparent and equitable.

4   Table 6.3 in the audit report identifies the amount of funding awarded to projects according to the electorate in which they were located. The figures quoted by the then Minister are accurate, but the audit report considered the funding outcomes in a broader context reflecting that funding was to be awarded through a competitive process to those applications assessed as having the greatest merit in terms of the published selection criteria. In particular, the report (at paragraphs 6.45 to 6.48 including Tables 6.3, 6.4 and 6.5) outlines that: there were significantly more projects located in Coalition electorates that applied for funding and, similarly, there were more projects in Coalition-held electorates recommended for funding by the panel. However, the then Minister's decision-making favoured projects located in electorates held by the Australian Labor Party. In particular, 43 per cent of projects located in an ALP-held electorate were approved for funding compared with only 29 per cent of projects located in a Coalition-held electorate. Of particular note was that 80 per cent of projects that were not approved by the Minister despite being recommended by the panel were in Coalition-held electorates with the majority (64 per cent) of projects that were approved for funding although they had not been recommended by the panel (that is, those approved from the SFF and NRF categories) being located in ALP-held electorates. Further, Chapter 5 of the audit report outlines that the reasons for decisions recorded by the then Minister often provided little insight as to their basis.

5   The final report is that of the Auditor-General pursuant to the *Auditor-General Act 1997*.

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Appendix 3: The Former Regional Development Australia Fund Advisory Panel's Response

Former Members

Independent Expert Advisory Panel

Regional Development Australia Fund

29 October, 2014

Mr Brian Boyd
Executive Director
Performance Audit Services Group
Australian National Audit Office
GPO Box 707
CANBERRA   ACT   2601

Via email

Dear Mr Boyd

This letter is in response to your correspondence dated 1 October 2014 headed *'The design and conduct of the third and fourth funding rounds of the Regional Development Australia Fund'*.

The former Regional Development Australia Fund Advisory Panel met recently to discuss the Proposed Audit Report enclosed with your letter.

Our response is outlined below (general comments and conclusion) and we attach a previously provided submission that the former Panel provided to the ANAO in July. We request that

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both this letter and the attached earlier submission we provided - in their entirety - be included in the Final ANAO Performance Audit.

GENERAL COMMENTS

Previous Panel submission ignored: While we acknowledge that there are a few minor references to our previous submission in the Proposed Audit report, we find it hard to believe that the author has actually read the document, which was thoughtfully written and provided by the Panel after being invited to do so by the ANAO in June 2014 as part of the drafting of its Report. It is certainly the view of the Panel that the writing of this submission on the 25th July 2014 appears to have been a waste of our valuable time. While the submission made by the Panel is referenced in a few areas of the Proposed Audit Report, it is evident that beyond the cursory quoting of certain extracts of the Panel submission, there has been no comprehension of the important arguments it set out.[1]

For completeness, we are attaching again our earlier submission to the ANAO to this letter.

Departmental record-keeping related matters: Reading the Proposed Audit Report, it is evident that a large proportion of the ANAO's concerns about elements of the administration of the Regional Development Australia Fund program relate to the record keeping of Departmental officials. It appears that because the ANAO did not find the records of the Panel's deliberations to have been kept by the Department in the way that it wanted, the ANAO appears to have formed several incorrect conclusions about the work of the Panel. We believe the ANAO needs to separate its views about the way in which the Department kept records on the deliberations of the Panel from the actual work and careful deliberations undertaken by the Panel. The ANAO's focus on record keeping by the Department should not be allowed to reflect negatively on the diligent work of the Panel.[2]

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1   **ANAO comment:** The panel submission was considered as part of the audit and substantial amounts of that submission have been quoted in the report (respectively at paragraphs 4.22, 4.39, 5.4, 6.8 and 6.26 and as illustrated by ANAO highlighting those parts of the panel's July 2014 submission quoted in the report) and the submission is included in full in this appendix. In addition, adjustments were also made to the drafting of the report in light of the panel's expressed views to clarify (at paragraphs 4.40 to 4.46) the ANAO's findings in relation to the absence of documented assessments by the panel for each eligible application in terms of the published selection criteria, as well as the panel's advice that it did not view applications other than those categorised as RFF as being of sufficiently high quality to be recommended for funding approval (paragraphs 4, 10, 38, 4.25, 5.47 and 6.49).
2   **ANAO comment:** The department prepared, and the panel chair signed, minutes of panel meetings for rounds three and four that provided less insight than the round one minutes. The shortcomings are highlighted at paragraph 4.51, including outlining that the statement 'no discussion' was recorded in the minutes (as circulated to members and then signed by the panel chair) against 36 per cent of the 159 eligible applications to round four.

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<u>Lack of understanding of project diversity</u>: It is evident in the Draft Report that the author believes that all projects submitted for funding under rural and regional funding programs applications are largely homogenous and can easily be compared. While we can see why someone without direct experience in this area might believe this, we also know that it is not true. The fact is that an enormous diversity of applications are submitted to rural and regional grants programs. This is clear from an examination of the applications that came forward across the RDAF rounds and also from the list of projects that the Minister(s) approved for funding. They were variously very large, very small, in metro areas, in regional, rural or remote areas, economic infrastructure or community infrastructure. It would be easy to keep emphasising the diversity of projects we had to consider, but we hope that the point is now clear. The task with which the Panel was charged was not the same as the other examples referenced in the ANAO Report where Advisory Panels were similarly established – in Research and Development or in specific Agriculture areas. It was our understanding when invited to join the RDAF assessment panel that our diverse experiences of rural, regional and remote Australia should be brought to bear in the assessment of the submissions. The RDAF Advisory Panel's task was to compare and assess the relative merits of an extremely diverse range of projects. As was set out in the Panel's submission, lists of simple numerical ratings, in this type of situation, do not assist Ministers or other public officials to make informed decisions. Those types of numerical listings in fact create a false impression of the relative merits of projects. This point is made in more detail below.[3]

<u>Numerical listing is not the only way to 'rank' projects:</u> The Panel has previously articulated its view about this in the submission it provided in July. We note that an extract of this part of the Panel's submission is printed on page 82 of the Proposed Audit Report, along with a reference to the Panel using a greater number of 'ranking points' in Round 1 than it did in Rounds 3 and 4. Despite the ANAO making the point that it was open to the Panel to use 'banding' as a way of producing a ranked list, it is evident from the Report that this is something the ANAO Report author does not support, or perhaps might support if there were a very large number of 'ranking points'.

While it is true the Panel did use a greater number of 'ranking points' in Round 1, had the ANAO enquired about why we formed the view that broader banding would be advantageous, we would have advised that following Round 1, it was quite clear to us that making Recommendations separated by so many 'ranking points' ran the risk of creating a false

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3   **ANAO comment:** This audit report, similar to ANAO's earlier audits of rural and regional grant funding programs, outlines the range of eligible applicants as well as the wide range of projects awarded funding. Some of those other programs have funded a more diverse range of applicants and projects than were eligible for RDAF funding. In this context, the Commonwealth Grant Guidelines outline that, in the case of a competitive granting activity such as RDAF, the assessment criteria are to be used to determine applicant rankings. Accordingly, documenting an assessment of each eligible application against each of the published selection criteria is the accepted approach to a transparent assessment process. However, a key difference between RDAF rounds three and four and many of the other rural and regional grant programs audited by ANAO was the absence of documented assessments, by the panel, of the merits of each eligible application against each of the published selection criteria.

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impression that a material difference in relative merit existed between similarly worthy projects. We did not want to create this type of false and unhelpful distinction so, after careful consideration, we adopted an approach that ranked projects by more broadly banding. We were advised by the Department that this was both a useful and acceptable (in ANAO terms) method for us to use. As you note, this is consistent with the ANAO's *Commonwealth Grant Guidelines* and certainly, based on the Panel's collective expertise in rural and regional Australia, a much more appropriate and accurate way of presenting the relative merits of a very diverse set of projects.

We also note the ANAO commentary that this approach was '*not particularly helpful to inform the Minister's decision making*' (p17). Surely, this is only an opinion? The expert Panel would argue that this opinion is not strongly founded on experience in rural and regional Australia related projects. Furthermore, this statement is contrary to the letter written to panel members, after the RDAF Round 1 process had been completed, on the 6th September 2011 by Minister Crean in which he thanks the Panel for our '*significant contribution to this process*' and advises as follows;

> *I also noted the Panel's advice on matters to be taken into account when I make decisions on projects to be funded.*
>
> *The Panel's work in assessing the 204 eligible applications for funding and ranking them according to merit has played an important part in my selection of the projects to be funded. I am aware of the thorough and meticulous process undertaken by members of the Panel to reach its decisions.*

So contrary to the ANAO proposed Audit document's suggestion that the 'banding' approach '*was not particularly helpful*' to the Minister, Minister Crean, actually confirms in his letter that the recommendations provided to him by the Panel played an important part in his decision making – a good indication of their helpfulness, we believe. As a Panel, we further developed the 'banding' approach in subsequent RDAF Funding Rounds in accordance with advice from the Department that this conformed with *Commonwealth Grant Guidelines* and understanding that the form of our advice was providing clear and '*helpful*' advice to the Minister. We did not receive any comment from any of the Ministers we advised that the nature of the 'banded' recommendations we have provided was in any way '*not particularly helpful*'. Indeed, we believe that the preferred approach that seems to being advocated by the ANAO would be

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significantly less '*helpful*' in informing Ministerial decision making – and it would certainly lead to poorer outcomes for rural and regional Australia.[4]

Accumulated frustration with 'regional' grants projects: Throughout the Report, the author reveals a frustration with rural and regional grants programs generally. Comments such as the following cited from the 'Overall Conclusion' section are typical: *'It was the experience with one of the earlier regional grant funding programs that was a catalyst for the introduction of the Commonwealth Grant Guidelines'* (p14) and that *'considerable work remains to be done to design and conduct regional grant programs in a way where funding is awarded, and can be seen to be awarded, to those applications that demonstrate the greatest merit in terms of the published program guidelines* (p14)' and also on page 13 that *'Performance audits have been undertaken of each of the major regional grant funding programs by successive governments over the last eleven years. Over this period some improvement in some important aspects of the design and implementation of regional grant programs. Nevertheless, in respect to each successive program there have been shortcomings in the design and administration of the assessment and decision making processes…'.*[5]

While the Panel can certainly understand the Report author's frustration with the challenges involved in running an effective rural and regional grants program in a country as large and diverse as Australia, the comments reveal a more general frustration about these types of programs – even a bias against them – which we believe has seeped into commentary made on the RDAF Rounds 3 and 4 Report. In particular, there are unsupported comments made,

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4 **ANAO comment:** The correspondence referred to by the panel was provided in respect to round one, where the panel individually ranked applications categorised as RFF and SFF. For round one, after approving 21 of the 25 applications that had been recommended for approval by the advisory panel, and having by this stage also approved funding for the Geelong Football Club application that had not been recommended, the Minister then considered the 39 projects in the Suitable for Funding–Priority One category by working through them in order of merit. The Minister recorded reasons for not approving certain projects (and, therefore, moving on to consider projects that were ranked further down the list) until the available $150 million in funding was exhausted. Such an approach was not possible for rounds three and four given the panel did not individually merit rank those applications categorised as RFF and SFF. In this context, for rounds three and four, the extent to which the Minister did not approve applications categorised by the panel as RFF was considerably higher than round one but the Minister did not then have the benefit of applications in the SFF category being individually ranked so that it was not possible for her to work through those applications in the manner that had occurred in round one. The panel's comments also do not address the extent to which it was common, across each of the four RDAF funding rounds, for the decision-maker to not accept its funding recommendations.

5 **ANAO comment:** The audit report is based on evidence and analysis. It outlines that this audit has identified similar shortcomings to audits of the RDAF round one as well as predecessor programs. Specific to the panel, the report observes that the methodology the panel had developed in August 2011 on the first day of its deliberations for the first funding round continuing to be applied in May 2013 for rounds three and four, notwithstanding previous ANAO analysis of shortcomings with both the approach and how the work of the panel was documented, and that the published program guidelines for rounds three and four required that 'Decisions taken by the Panel, including rationale, will be recorded and endorsed by the Chair'.

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and emphasis added by the author, which appear not to be about RDAF 3 and 4 specifically, but rather spring from an accumulated frustration with the historical administration of rural and regional programs.[6]

The Panel respectfully suggests that the ANAO might reflect on this apparent bias and the negative sentiments about rural and regional programs that permeate the Proposed Audit Report. It might be more productive for the ANAO to, in the first instance, accept that there are a set of particular challenges inherent in running a national rural and regional grants program that make these schemes different from other programs and to reflect on how it might approach audit work in this area in a way that recognises these challenges. The Panel members would be very happy to help the ANAO with some thoughts on how this might be approached and we believe that some of the ideas contained in this letter, and in our previous submission, might be a useful starting point. Recruiting some senior staff with experience in rural and regional Australia would also be positive step forward.

Significant difference in expertise in regional Australia between 'assessors' and the independent expert Panel: This point was set out in some detail in our submission to the ANAO in July. It appears to have either been ignored or not comprehended by the ANAO in the Proposed Audit document. At the risk of re-stating an already very clearly made point, the difference in experience between the 'assessors' (the contractors and program officers of the Department who wrote the initial assessment documents) and the Panel is vast. The whole point of having an independent expert advisory panel is to ensure that the applications are examined by experts in the sector who have deep familiarity with rural, regional and remote jurisdictions throughout Australia. The author of the ANAO Proposed Audit document repeatedly refers to *'the lack of a clear trail'* between the assessors' rankings and the Panel's rankings. These comments show a lack of appreciation and acknowledgement of the vastly different levels of experience in rural and regional Australia applied to the task by the two different groups. To make it as clear as possible, the fact that the expert Panel, using its deep experience (nearly 100 years of collective experience) in regional development, re-rated and challenged the initial assessments provided by a Departmental officer or contractor is a positive. The Panel's role was not simply to be a rubber stamp for Departmental assessments. The Panel's rigorous examination of projects was both a positive for regional Australia and for taxpayers because program and project outcomes benefitted significantly. At all times, the Panel relied on its collective expertise to assess each project against the published selection

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6   **ANAO comment:** The report outlines the background to the establishment of RDAF, the funding made available and discusses the range of applicants and projects that were eligible. The audit report assessed the design and implementation of RDAF rounds three and four, including the important role played by the panel. In this respect, the report outlines that the methodology the panel had developed in August 2011 on the first day of its deliberations for the first funding round continuing to be applied in May 2013 for rounds three and four. This was notwithstanding previous ANAO advice to the panel prior to round two (in briefing the panel at its round two planning meeting on 7 March 2012), and ANAO's report on the audit of round one tabled on 19 September 2012, identifying shortcomings with both the approach and how the work of the panel was documented.

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criteria. To read the ANAO Proposed Audit report, the only thing that appears to matter is that *'there is a clear trail'*, which seems to mean that each assessment process should broadly confirm the previous one. The Panel rejects this. The fact that the Panel challenged Departmental decisions and rigorously applied its expertise to consideration of the applications did not produce the type of neat, straight line that the ANAO author might prefer. However, it did produce a more deeply considered set of recommendations for the Minister and resulted in better outcomes for regional Australia, which surely was the aim of the program.[7]

Furthermore, there was no indication from the presiding Ministers in correspondence to the Chair or the panel members that the process or the recommendations made for funding were not helpful. Indeed, as was set out previously in this letter, quite the opposite.

ANAO Audit author opinions presented as 'conclusions' and misinterpretation of critical information: Throughout the Proposed Audit, the author offers opinions that are presented as 'facts' or 'conclusions', notwithstanding that they are based on either incorrect understanding of key issues or misinterpretation of information. Perhaps the clearest example of this is on page 88 (4.41 and 4.42), where the Report author appears to seize on the following point in a submission made by the Department:

'The Panel did not assess (or re-assess) each project against each of the merit criteria. Rather it took a holistic view of the project and its benefits. The Panel's approach considered a range of inputs including the Department's analysis of the case presented by the applicant'

In 4.42 (page 88) the ANAO describes this as being *'at odds with the published terms of reference for the panel which stated that: the Panel will support the aims of the RDAF Program by discussing and assessing the relative merits of, and ranking, all eligible RDAF proposals based on the following criteria set down in the RDAF guidelines.'*

The ANAO Report author has clearly misunderstood the advice from the Department that *'the Panel did not assess (or re-assess) each project against each of the merit criteria'*. The Panel

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7   **ANAO comment:** Both this audit, and the audit of round one, recognised that the panel injected specialist knowledge into the assessment of applications. In particular, the report recognises that the panel applied its experience and knowledge to challenge the department's initial assessments, and that the panel advised ANAO that this led to some applications being 're-rated'. Nevertheless, both audit reports also outline that there were shortcomings in the approaches taken by the panel. No record was made of the re-ratings and the panel did not otherwise document an assessment of each application against each of the selection criteria, as referred to earlier at paragraphs 4.40 to 4.53. This approach, combined with panel meeting minutes not adequately outlining the rationale for its assessments, means that the demotion of some projects and promotion of others compared with the initial assessment remains unexplained.

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did assess each project against the selection criteria. What the Department is saying is that the Panel considered all of the selection criteria together. Therefore, the only point of difference between what the ANAO would have like to have seen happen and what happened, is that the Panel considered and applied the selection criteria in their entirety, rather than going through an exercise for every project to consider each of the selection criteria individually. This was not required, nor a sensible way to manage a discussion about the merits of a particular project.[8]

Given that the ANAO Report author appears to have conflated two different things here and erroneously states in the Proposed Audit Report that the Panel did not follow the terms of reference with which it was provided, on what basis is the bold and underlining justified? This is editorial emphasis added by the Author clearly without basis. The Panel did exactly what the published terms of reference required – that is, it discussed and considered every project against the criteria set down in the RDAF guidelines. The Panel's actions were at all times consistent with the published terms of reference.

CONCLUSION

As a group of people with deep experience in rural and regional Australia, when we were asked by the Minister to assist the work of the Regional Development Australia Fund by serving on the expert advisory Panel, we all agreed out of a strong sense of commitment to public service and to rural and regional Australia.

We would also add that we found a strong sense of diligence and commitment amongst the public servants with whom we worked, who often worked late into the night and on weekends to support the work of the assessment processes. As the ANAO notes, the Panel members and the public servants involved in the process were often placed under significant time pressure. We applied ourselves collectively with a great deal of goodwill, hard work, focus and diligence

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8 **ANAO comment:** Given the panel had, in its words, 're-rated and challenged the initial assessments' provided by the department, the report outlines the shortcomings in an approach that did not then involve the panel undertaking, and documenting, an assessment of each eligible application in terms of the individual published selection criteria, with that assessment providing the basis to support the panel's categorisation of applications in terms of their relative merit and to support its recommendations to the Minister. The importance of such an approach was reflected in the Commonwealth Grant Guidelines, and has also been reflected for many years in ANAO's grants administration Better Practice Guides, and reflects longstanding practice on the part of agencies as well as being consistent with the approach foreshadowed in the published guidelines for RDAF rounds three and four. The recording of an assessment against each of the published selection criteria provides a transparent and accountable means of effectively differentiating the relative merit of a diverse range of competing applications, and for this reason is common practice in the administration of Australian Government grant programs. In this context, an ANAO survey of unsuccessful applicants (see paragraph 6.27 and Figure 6.1) outlined that few respondents were confident that the assessment and decision-making processes employed for rounds three and four were open, transparent and equitable.

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to the work we had been asked to assist with – nowhere in the Proposed Audit is this mentioned.

It is a significant understatement to say that the Panel members are disappointed with the ANAO Proposed Audit document. The Panel, on a number of occasions, brought the ANAO into Panel meetings so that we could receive briefings from ANAO staff, we conformed with all probity requirements, we received advice from the Department confirming that our deliberations were in accordance with the *Commonwealth Grant Guidelines*, and in every single assessment of an RDAF application we diligently considered the published selection criteria.

Given that as a Panel we know that what is set out in this letter is an honest and accurate account of the work undertaken by the Panel, as was the submission we made in July, it is amazing to us that the ANAO has produced the type of document it has. We wonder what type of process can produce so many unsupported assertions and present them as 'conclusions'. We do recognise that performance audit work is difficult, but we would have thought, at a minimum, that some discussion might take place between the report author and Panel members so that an informed set of conclusions could have been arrived at. Unfortunately, this has not been the case. No doubt there will be a rebuttal to this point and others made in this letter along the lines of 'we only look at the records'. In our situation, where the records have been kept by the Department, I'm sure you can understand this type of reply hardly addresses the substance of the points the Panel has made in this letter and in our previous submission.

As things stand, the Proposed Audit Report contains many unsupported assertions, opinions and unwarranted negative inferences both about the RDAF program and about the effectiveness and appropriateness of the way in which the Panel discharged its responsibilities. We reject these assertions and inferences as ill-informed and further assert that the Panel diligently and effectively conducted its work at all times. We would also note that the work of the Panel was widely admired across rural and regional Australia because of its independence and its vast sector experience.

While recognising that the Proposed Audit document is deeply flawed and requires significant amendment to meet appropriate quality and accuracy standards, we remain prepared to assist

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the ANAO in this process. As a first step, Panel members would be pleased to meet with the ANAO to discuss our concerns in more detail.[9]

As mentioned elsewhere in this letter, we request that this letter and the attached submission we made in July be attached in full to the ANAO Performance Audit to be tabled in the Federal Parliament.

Yours sincerely

Christian Zahra, former RDAF Advisory Panel Chairman

Bachelor of Economics *(La Trobe)*

Masters of Assessment and Evaluation *(University of Melbourne)*

Fellow of the Australian Institute of Company Directors

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9   **ANAO comment:** The ANAO disagrees with these statements by the former panel. The audit was undertaken, and the proposed audit report prepared, in accordance with ANAO auditing standards by auditors with considerable experience in relation to grants administration, including programs that deliver grant funding in rural and regional Australia. On receipt of this October 2014 correspondence, the ANAO discussed with the panel its comments on the proposed report, as well as how the panel's July 2014 submission was taken into account in the preparation of the proposed report.

The panel's correspondence addresses comments by the ANAO on the approach adopted by the panel in assessing applications for the purpose of making recommendations to the Minister. The report recognises that the panel applied its collective experience and knowledge on regional Australia in arriving at its recommendations but makes the point that the basis on which those recommendations were arrived at is not clear from the available documentation and (as outlined in paragraph 4.21) that the broad-banding offered the Minister little in the way of advice on the relative merits of the competing applications across the 'Recommended for Funding' and 'Suitable for Funding' categories.

It is important, though, not to lose sight of one of the main messages in the report that it was common for the then Minister to not approve applications recommended by the panel and to instead approve applications in the SFF and NRF categories, with the records of the reasons for funding decisions taken contrary to the panel's recommendations providing little insight as to their basis.

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Professor Barbara Norman, former RDAF Advisory Panel Deputy Chair

Bachelor of Town & Regional Planning *(University of Melbourne)*

Master of Environmental Law *(The Australian National University)*

PhD *(RMIT University)*

Life Fellow Planning Institute of Australia

Professor Fiona McKenzie, former RDAF Advisory Panel Member

Bachelor of Commerce *(University of Western Australia)*

Bachelor of Arts *(University of Western Australia)*

Graduate Diploma Social Science (Economic History) *(Edith Cowan University)*

Master of Philosophy *(University of Western Australia)*

PhD *(University of Western Australia)*

Fellow of the Australian Institute of Company Directors

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Brad Orgill, former RDAF Advisory Panel Member

Bachelor of Economics *(Monash University)*

Graduate Diploma Applied Finance & Investment *(Securities Institute of Australia)*

Master of Arts (Asian Studies) *(National University of Singapore, University of Sydney)*

Master of Environmental Science & Law *(University of Sydney)*

Justin Hanney, former RDAF Advisory Panel Member

Bachelor of Arts (*Monash University*)
Graduate Diploma of Business Management (*Monash University*)

Master of Public Policy and Governance (*Deakin University*)

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Appendix

23 July, 2014 former RDAF Advisory Panel letter to the ANAO.[10]

Christian Zahra FAICD
16 Victoria Street
TRENTHAM VIC 3458

Ms Barbara Cass
Group Executive Director
Performance Audit Services
Group ANAO
Via Email

23 July 2014

Dear Ms Cass

Regional Development Australia Fund (RDAF) – Audit of Rounds 3 and 4

Thank you for your letter of 19 June and our subsequent telephone discussion about the above. I appreciate the opportunity to provide you with some input into your performance audit of the RDAF Rounds 3 and 4.

You requested some feedback in response to the Issues Paper produced by the ANAO. Since then, I have convened a discussion of the (former) RDAF Panel in order to provide that feedback as a group. We hope the points we make below will be useful to the ANAO in finalizing its audit of the program.

(1) Difference in experience in expertise of people involved in considering the merits of applications: It appears, through our reading of the Issues Paper, that the ANAO hasn't considered the difference in experience and understanding of issues affecting rural and regional Australia between the 'assessors' and the specialist independent expert advisory panel (the RDAF Panel). This is made clear by the queries – for example 5.53 – concerning how the Panel had arrived at a different conclusion to that suggested by the 'underlying assessment material'. This material was put together by the 'assessors' – who no doubt have skills in program management, but do not have much direct experience or understanding of rural and regional Australia. Panel members, on the other hand, were appointed because of their specialist knowledge of regional and rural development issues. It is the view of the Panel that the materials provided by the 'assessors' provided a useful reference point, one important input, but not the only one on which the Panel should rely. As Panel members we were there to draw on our collective specialist expertise to consider the strengths and weaknesses of each project against the merit criteria. The Issues Paper refers to the Panel being informed in a 'minimal way' (6.46) by the assessors' opinion, however, we would disagree with this. The information provided by the assessors was a useful tool in our deliberations, but we also drew on the individual and collective experience of Panel members, whose academic and practical understanding of rural and regional Australia was very strong. To suggest that there is something concerning about this process because decisions of the Panel differed, on occasions, from an initial assessment made by a public servant or contractor administering a program is to misunderstand the significant benefit provided by input from an independent expert advisory panel. The Panel believes that it is not reasonable to equate the view of an 'assessor' without any direct subject matter expertise to the careful deliberations of a Panel of people with deep subject matter expertise (nearly 100 years of collective experience in issues affecting rural and regional Australia). Indeed, the Panel believes that the fact that the Panel sometimes disagreed with the 'assessor' doesn't mean something was wrong with the process –

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10   **ANAO comment:** ANAO has highlighted the parts of the panel's July 2014 submission that were quoted in the draft final report provided to the panel (these parts are similarly quoted in the final report).

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quite the reverse. What it means is that the specialist advisory Panel was doing its job effectively – applying its collective expertise and experience to the benefit of the program's policy objectives and, importantly, ensuring value-for-money for taxpayers. It is the Panel's view that for a specialist advisory panel to challenge and question the initial assessment is critical to good policy outcomes – certainly of more value than simply rubber-stamping the views of Departmental officers or contractors.

(2) More funds allocated than were recommended: In relation to the point the ANAO makes about the Panel recommending less than the maximum of $50M worth of projects to the Minister for Round 3, the view of the Panel was that it recommended only those projects that it collectively believed to be of the highest quality. Those that were not recommended to the Minister were, in the view of the Panel, not of significantly high quality. I note the comments in the ANAO's Issues Paper that the Panel had taken 'a sound approach' in deciding to recommend only the highest quality projects. Notwithstanding that, the ANAO goes on to question why more projects were not recommended for funding, given a 'sufficient pool of quality applications from which to select additional project for funding recommendation'. In response, the Panel would point out that in identifying projects that were 'Recommended for Funding' and others that were 'Suitable for Funding', the Panel was following the guidelines for consideration of projects. Without wanting to oversimplify things, the reason that those projects that the ANAO has described as 'quality' were not recommended by the Panel, was because – after robust discussion and the application of the collective expertise of all Panel members – the Panel did not feel that it was appropriate to recommend projects that were not of a high enough standard. See point (1) above for further discussion on differences in views between 'assessors' and the Panel on 'quality applications'.

(3) Numeric listing of project rankings: The ANAO Issues paper points out that the Panel did not provide a sequential ranking of projects and goes on to say that 'in the ANAO better practice guide, practices that would not sit comfortably with the policy framework for grants decision making include providing the Minister with a list of projects variously rated against qualitative ratings but with no advice as to which individual projects were ranked highest and should be preferred for approval'. We are unsure why that point has been made, given that the Panel did provide a ranked list to the Minister, using 'bands' rather than a numeric listing. By using bands, the Panel provided the Minister with clear advice about which projects 'should be preferred for approval'. While it is true that a numerical listing of projects could be produced, by reducing each element of a project's evaluation to a number, and then adding up the numbers, it is the Panel's view that this would actually create a false impression that projects – very close in ranking – are in fact better or worse depending on one point, or less than one point, out of one hundred. Furthermore, the panel was mindful at all times not to presume that we were comparing 'like' communities. We believe that the 'banding' approach adopted by the Panel provided a more meaningful and accurate representation to the Minister of the relative merits of the projects considered.

(4) Panel members as 'agency staff' for the purposes of Commonwealth Grant Guidelines: while the ANAO offers a view about this (at 5.2) – in effect that the Panel were 'agency staff' for these purposes – this doesn't sit easily with reality of how the Panel worked with the Department. We had a positive working relationship with the Department and its Officers, but we were never, during the process, in any way agency staff. To be 'agency staff' would involve the Panel – necessarily – operating under the Department's management and directives. This was not the case. The Panel operated as a specialist independent advisory Panel, rather than as 'agency staff' members. This is perhaps why, on many occasions, the Panel was prepared to question the views arrived at by 'agency staff' – assessors - and subsequently to recommend, in some cases, a significantly different set of

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projects to the Minister than might have been the case had only 'agency staff' assessments been considered.

(5) Limited feedback; there are several references that the Issues Paper makes to feedback provided to applicants. The Panel would agree that this step in the process is very important. I would point out that on several occasions, on behalf of the Panel and with the Department present, as Chairman I personally provided high level feedback to groups of applicants / prospective applicants as part of the Review of the Program and on other occasions where I was invited to speak about the program and answer questions. The Department can advise the ANAO in more detail about this, but this approach was very well received and people clearly appreciated receiving this direct feedback about how the Panel approached its task. This was obviously not specific to individual projects - it was certainly our understanding that more specific advice and feedback was also being provided to applicants in addition to the 'reasons for decision' that were recorded on the decision slips.

The Panel has met with the ANAO several times in the conduct of its work and has taken seriously the advice and guidance it has received from the ANAO through this engagement. At all times our work as a Panel has focused on compliance with the requirements of the program as well as our responsibility to deliver value-for-money for taxpayers and to recommend for funding only the very best projects.

On behalf of the Panel, I hope the above comments are useful to the ANAO in completing its audit. I would be very happy to talk again in more detail to the ANAO to assist you in finalizing your performance audit.

Yours sincerely

C. J. Zahra.

Christian Zahra FAICD

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