

The Auditor-General
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Performance Audit

Award of Funding under the Mobile Black Spot Programme

Department of Communications and the Arts

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Canberra ACT
1 September 2016

Dear President and Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Communications and the Arts titled *Award of Funding under the Mobile Black Spot Programme*. 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

A handwritten signature in black ink, which reads 'Grant Hehir'. The signature is written in a cursive, flowing style.

Grant Hehir
Auditor-General

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

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office (ANAO). The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits, financial statement audits and assurance reviews of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Summary and recommendations

Background

1. In June 2015, the Government announced the selection of two network operators (Telstra and Vodafone Hutchison Australia) to deliver 499 new and upgraded mobile base stations across Australia as part of the Mobile Black Spot Programme (MBSP).¹ The programme was designed to fulfil a 2013 election commitment to extend mobile phone coverage and industry competition for the provision of coverage in remote, regional and outer metropolitan areas. The total funding for the selected base stations under Round 1 of the programme was \$385 million, including \$110 million (including GST) in Commonwealth funding and \$275 million in co-contributions from state governments, third parties and mobile network operators.
2. The Department of Communications and the Arts is responsible for administering the programme, including the assessment of applications for funding based on criteria that included the: size of the new coverage area of proposed based stations; number of premises and length of transport route covered; coverage of priority areas nominated by Members of Parliament; and co-contributions by the applicants, state governments and third parties. The rollout of the selected base stations funded under Round 1 commenced in late 2015 and is to be concluded by July 2018. The programme guidelines for Round 2 of the programme were released in February 2016. In May 2016, the Government announced an additional \$60 million towards Round 3 of the programme as part of its 2016 election campaign, bringing the total commitment to \$220 million.

Audit objective and criteria

3. The objective of the audit was to assess the effectiveness of the Department of Communications and the Arts' assessment and selection of base stations for funding under the first round of the Mobile Black Spot Programme. To conclude against the audit objective the ANAO adopted the following high-level criteria:
 - were appropriate programme guidelines developed, which reflected the policy intent and objectives of the programme, and was the programme accessible to potential applicants?
 - were applicants assessed in a consistent, transparent, accountable and equitable manner?
 - were sound governance arrangements established for the programme?

Conclusion

4. The department established the key elements that would be expected to form part of a competitive, merit-based grants programme and, in the main, implemented these elements in accordance with the published guidelines for Round 1 of the Mobile Black Spot Programme. The

1 A total of four applications were received for funding under the programme. The application from Gilat Satellite Networks was assessed as ineligible. The proposals contained in the application from Optus were not recommended for funding following the merit assessment process. The base stations that were awarded funding under the programme were proposed in the applications from Telstra and Vodafone Hutchison Australia.

499 base stations selected under the programme are expected to provide 162 000 km² of expanded coverage across Australia (including 68 600 km² of new handheld mobile coverage), at a cost to the Commonwealth of \$110 million and involving co-contributions from state governments to a value of \$92 million.

5. Nevertheless, the following weaknesses in programme administration have impacted on the effectiveness of the assessment and selection process, and the value achieved from programme funding:

- The criteria used by the department to assess the merits of each proposed base station did not sufficiently target funding toward the expansion of coverage where coverage had not previously existed (for example, 89 of the 499 selected base stations provided minimal new coverage of additional premises and kilometres of transport routes at a combined cost of \$28 million). As a consequence, public funding has resulted in substantial consolidation of existing coverage provided by grant applicants, as opposed to extending coverage in new areas—a key objective for the programme.
- The department did not establish appropriately structured methodologies to inform the technical and financial assessments of applicant proposals. The development of such methodologies, tailored to the objectives of the programme, would have improved the rigour of the department's assessment of proposals, particularly in relation to applicant costings.
- The department's ability to measure the overall impact and effectiveness of the programme and report to stakeholders will be difficult given the absence of a fit for purpose performance measurement and evaluation framework for the programme.

Supporting findings

Access to funding

6. The department appropriately identified black spots to guide the location of proposed base stations to be funded under the MBSP through its Database of Reported Locations, which listed over 6000 publicly nominated areas with partial, poor and no mobile coverage. The approach taken to promote the programme across targeted electorates was not, however, consistently conducted and this may have had an impact on the distribution of nominations across electorates.

7. The department developed programme guidelines that reflected the objectives of the programme and contained an appropriate range of information about the programme to facilitate the submission of applications, including the programme objectives, the assessment criteria and the approval process. The assessment criteria were largely aligned with the objectives of the programme, although there was scope for the department to have considered developing indicators of community need and specific local issues to inform the delivery of any future funding rounds.

8. While the department considered that it had designed the guidelines to achieve maximum value for money, weaknesses in aspects of the guidelines impacted on this outcome. In particular, the absence of a minimum coverage requirement and threshold scores for each

criterion enabled lower ranked proposals, with minimal new coverage and competition outcomes, to be selected for funding.

Assessment and selection of base stations

9. The department received four applications (that contained 555 proposals for new and upgraded base stations seeking \$134 million in Commonwealth funding) that, overall, were assessed in accordance with the requirements established in the programme guidelines.

10. The eligibility requirements outlined in the guidelines were applied fairly, with all assessments appropriately documented and retained by the department. The eligibility assessment process resulted in one applicant, a mobile network infrastructure provider, being excluded from further consideration.

11. The proposals for base station funding submitted by the three applicants were assessed and scored in accordance with the guidelines, but the department's assessment of applicant costings for proposed base stations lacked sufficient rigour. There was scope for the department to have better prepared for the assessment of coverage claims and applicant costs. The assessment of aspects of submitted applications presented a number of challenges for the department, particularly in relation to the assessment of applicants' coverage claims, with the department required to modify its approach during the course of assessment.

12. The basis on which the merit list of base stations was developed was appropriately supported by documentation, with funding decisions made in accordance with the recommendations arising from the assessment process. All eligible proposed base stations were ranked in order of the assigned assessment score (from highest to lowest) and the equitable distribution principles were applied in accordance with the requirements outlined in the published programme guidelines. As a result, the proposals of one applicant (Optus) were not recommended for funding. The electoral distribution of selected base stations was primarily driven by the area that operators chose to locate their proposals and the level of co-contributions that had been committed.

13. An assessment of indicators of value for money achieved by the programme, such as benefits for consumers from new coverage, showed mixed results. While handheld coverage is expected to be extended by 68 600 km² into new areas under the programme, up to 39 base stations were planned to be built in the same or similar areas (according to applicants' forward network expansion plans) without the need for public funding. Further, up to 89 base stations provided minimal benefits to consumers in areas that previously did not have any coverage and, as result, did not score a single point for coverage benefit. The award of \$28 million in state and Commonwealth funding to these 89 base stations undermined the value for money outcomes achieved from the programme. The extent to which competition is improved under the programme through the use of infrastructure by multiple operators is yet to be determined by applicants and the department.

Programme governance arrangements

14. The oversight arrangements established for the MBSP provided an appropriate framework to govern the assessment and selection process, but implementation of aspects of the framework was not effective. In particular, the documentation retained by the department

did not demonstrate that the Steering Committee discharged its responsibilities to oversee the work of the Evaluation Committee.

15. To support programme delivery, the department developed appropriate, high-level plans for implementation, proposal assessment, and project management, with internal guidance established to assist in the process of assessing and selecting base stations. The department did not, however, establish a compliance plan or a plan to measure programme performance.

16. The department established an appropriate framework to identify programme risks, including those relating to probity, with these risks and their treatments monitored on an ad hoc basis. The establishment of a more structured process to review and update risks would provide greater assurance that risks were being appropriately managed.

17. The existing programme performance measures do not enable the department to accurately monitor the extent to which programme objectives are being achieved and, as a result, adequately inform stakeholders of the impact and cost effectiveness of the programme.

18. The funding agreements outlined a number of arrangements that provide the department with some capacity to safeguard public funds through claw-back provisions in the event of underspends. These arrangements require further strengthening to reduce the department's heavy reliance on funding recipients' verification of expenditure following rollout completion.

Recommendations

Recommendation No.1
Paragraph 2.49 To better target the award of funding to proposals that support the achievement of Mobile Black Spot Programme objectives and maximise value for money outcomes, the ANAO recommends that the Department of Communications and the Arts establish minimum scores for assessment criteria.

Department of Communications and the Arts' response: *Agreed.*

Recommendation No.2
Paragraph 3.25 To promote timely and robust assessment and to demonstrate that expenditure under the programme represents a proper use of public funds, the ANAO recommends that the Department of Communications and the Arts implement an appropriately detailed assessment methodology tailored to the objectives of the programme.

Department of Communications and the Arts' response: *Agreed.*

Recommendation No.3
Paragraph 4.24 To assess the extent to which the Mobile Black Spot Programme is achieving the objectives set by government, the ANAO recommends that the Department of Communications and the Arts implement a performance measurement and evaluation framework for the programme.

Department of Communications and the Arts' response: *Agreed.*

Summary of entity response

19. The proposed audit report issued under section 19 of the *Auditor-General Act 1997* was provided to the Department of Communications and the Arts. An extract of the proposed report was also provided to the former Parliamentary Secretary to the Minister for Communications. The Department of Communications and the Arts' summary response to the report is provided below, while its full response is at Appendix 1.

The department agrees with the ANAO's three recommendations outlined in its proposed audit report and its conclusion that the department established the key elements of a competitive, merit-based grants programme. The department notes that the establishment of a minimum new coverage requirement for round 2 base stations is directly relevant to one of the recommendations, and the two remaining recommendations will be implemented by further enhancement of the assessment and evaluation documentation for round 2.

The department notes the ANAO's observations regarding the extent of new coverage being delivered by the base stations. The department is of the view that extending new coverage is just one of the aims of the programme and that the mobile telecommunications infrastructure being funded through the programme also achieves the programme's objective of providing the potential for improved competition.

Audit Findings

1. Background

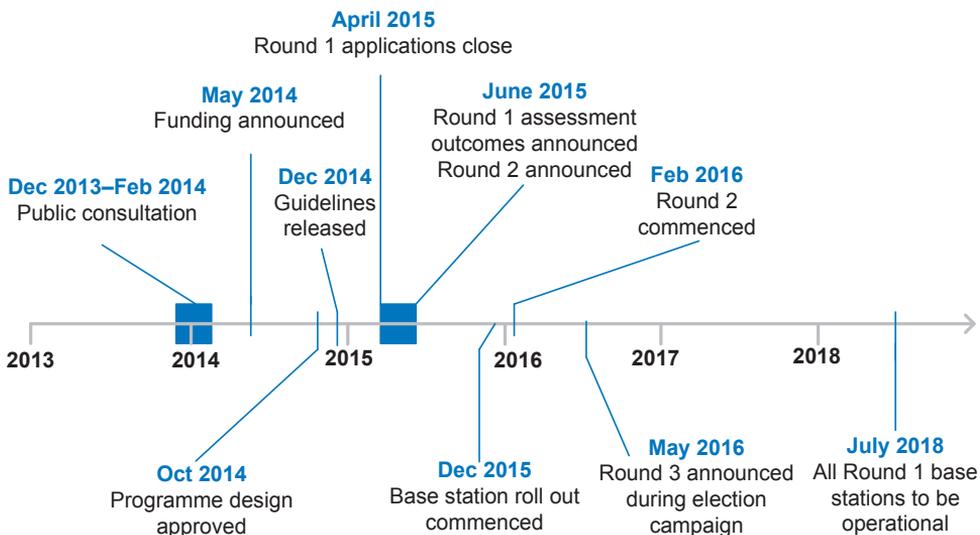
Mobile phone coverage in Australia

1.1 Over a number of years, various reviews of regional telecommunication services have identified inadequate mobile phone coverage as a significant issue for outer metropolitan, regional and remote communities.² To address this issue, during the 2013 federal election campaign the Opposition outlined its proposal to provide \$100 million to expand mobile phone coverage in regional and remote areas along major transport routes, in small communities and in locations prone to experiencing natural disasters.³

Mobile Black Spot Programme

1.2 Following the 2013 election, the new government announced the \$100 million Mobile Black Spot Programme (MBSP). The programme was intended to extend mobile phone and wireless broadband services and industry competition for the provision of those services in remote, regional and outer metropolitan Australia.⁴ The timeline for programme delivery is outlined in Figure 1.1.

Figure 1.1: Mobile Black Spot Programme timeline



Source: ANAO analysis of departmental information.

- 2 These reviews include: Ms D Shiff (Chair), *Regional Telecommunications Review: Unlocking the potential in Regional Australia*, 2015; Ms R Sinclair (Chair), *Regional Telecommunications Review: Regional Communications Empowering Digital Communities*, 2012; and Dr B Glasson AO (Chair) *Regional Telecommunications Review: Framework for the Future*, 2008. The 2015 Regional Telecommunications Review (p. ix) noted that 'regional Australians have a higher dependency on mobiles than their urban counterparts because of the broader geographic range within which many conduct their working and everyday lives'.
- 3 Liberal Party of Australia and The Nationals, *The Coalition's Mobile Black Spot Programme*, August 2013, p. 5.
- 4 Following the Government's announcement of the results of Round 1 of the Mobile Black Spot Programme on 25 June 2015, the Government announced that it would commit \$60 million for Round 2 of the programme with funding available over a two year period from 1 July 2016. In May 2016, the Government announced an additional \$60 million towards Round 3 of the programme as part of its 2016 election campaign, bringing the total commitment to \$220 million.

1.3 The MBSP is administered by the Department of Communications and the Arts. To inform the programme's design, the department released a discussion paper in December 2013 that outlined delivery options, intended arrangements for applicants to access funding, and possible selection criteria. Information was sought from the public on areas with poor or no mobile coverage (black spots). Federal Members of Parliament (MPs)—who represented 75 regional and remote targeted electorates—were invited to nominate up to three priority black spots.⁵ Based on the responses received, the department developed a Database of Reported Locations (the database) containing the location details of more than 6000 identified mobile black spot locations.

1.4 In December 2014, the department released the MBSP's guidelines and invited mobile network operators and infrastructure providers to seek funding for new mobile base stations or for upgrades to existing base stations to address identified black spots. Four applications were submitted by mobile network operators and a mobile network infrastructure provider proposing 555 new or upgraded base stations. Of the four applications, one application was deemed ineligible because it did not meet the requirements of the programme. The remaining three eligible applications were assessed against seven criteria (as outlined in Table 1.1).

Table 1.1: MBSP assessment criteria

Category	Consideration	Scoring
1. New coverage	New handheld coverage (one point per 200 km ² capped at six points), new external antenna coverage (one point per 400 square kilometres capped at three points) and/or existing external antenna coverage upgraded to handheld coverage (one point if the area is greater than 100 square kilometres).	Score out of 10
2. Coverage benefit	Premises that will now receive handheld coverage (one point per three premises) and the length of major transport routes within new handheld and external antenna coverage area (one point for every five kilometres covered).	Uncapped
3. MP priority	The proposed base station's coverage includes an MP's priority black spot.	Score of five
4. Co-contributions	Cash and/or in-kind co-contributions from applicants (one point awarded or deducted per \$10 000 co-contribution above or below 50 per cent of the total estimated capital cost), and state/territory governments, local councils or other third party (one point per \$10 000 co-contributed).	Uncapped
5. Cost to Commonwealth	Net cost to the Commonwealth of each proposal. Each proposal initially received 50 points with one point deducted for every \$10 000 incurred by the Commonwealth.	Score out of 50
6. Service Offering	Service offered from the proposal in addition to the mandatory 3G HSPA+ technology (up to five points) and whether roaming services will be offered to all other operators (10 points).	Score out of 15
7. Commitment of use	Other operators have committed to use the proposed base stations for at least 10 years (10 points per operator) or are capable of supporting additional operators in the future.	Score out of 20

Source: ANAO, adapted from the programme guidelines.

⁵ These 75 MPs represented targeted electorates where less than 50 per cent of the electorate area was defined by the Australian Bureau of Statistics as part of a major urban centre with a population of 100 000 or more, and which were not designated by the Australian Electoral Commission as 'Inner Metropolitan'. The political parties represented in these 75 electorates were: Liberal (30), Liberal National Party (16), Australian Labor Party (17), National Party (9), Katter's Australian Party (1), Palmer United Party (1), and Independent (1).

1.5 Further to the assessment criteria, Commonwealth funding was capped at \$500 000 per base station and \$20 million (of the \$100 million Commonwealth funding allocated) was reserved for proposals that addressed specific local issues and had a co-contribution (cash or in-kind) from state, territory or local governments, local communities or other contributing third parties.

Assessment outcomes

1.6 On 25 June 2015, the Minister for Communications announced the selection of 499 base stations for funding under the programme. The successful base stations were selected from two of the three eligible applications⁶:

- Telstra was awarded \$94.8 million (GST inclusive) for 429 base stations; and
- Vodafone Hutchison Australia was awarded \$15.2 million (GST inclusive) for 70 base stations.⁷

1.7 On the basis of the information included in the applications, the department (with assistance from its technical adviser) estimated that the funded base stations would provide:

- 68 600 km² of new handheld mobile coverage;
- 150 000 km² of new external antenna mobile coverage;
- over 5700 km of new handheld and antenna coverage to major transport routes; and
- coverage of approximately half the black spots identified in the database.⁸

1.8 The number of base stations funded in each jurisdiction is outlined in Table 1.2.

Table 1.2: Base stations funded by jurisdiction

State/territory	Total number of new or upgraded base stations selected	Number of Telstra base stations selected	Number of Vodafone Hutchison Australia base stations selected
Victoria	110	109	1
New South Wales	144	101	43
Queensland	68	61	7
Western Australia	130	128	2
South Australia	11	11	0
Tasmania	31	14	17
Northern Territory	5	5	0
Total	499	429	70

Note: No new or upgraded base stations were funded in the Australian Capital Territory or Australia's external territories.

Source: ANAO analysis of departmental information.

-
- 6 The proposals contained in the application from Optus were not recommended for funding following the merit assessment process.
- 7 Total funding of \$110 million includes \$10 million in GST. Base stations proposed at no cost to the Commonwealth were to be funded entirely through applicant and state or third party co-contributions, negotiated between the parties as part of the programme.
- 8 New or increased coverage at one site may address multiple black spots.

1.9 The second round of the MBSP commenced in February 2016, with funding of \$60 million allocated from the 2015–16 Budget contingency reserve.⁹

Audit approach

1.10 The objective of this audit was to assess the effectiveness of the Department of Communications and the Arts' assessment and selection of base stations for funding under the first round of the Mobile Black Spot Programme.

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

- Were appropriate programme guidelines developed, which reflected the policy intent and objectives of the programme, and was the programme accessible to potential applicants?
- Were applicants assessed in a consistent, transparent, accountable and equitable manner?
- Were sound governance arrangements established for the programme?

1.12 The scope of the audit included the examination of the department's administration of the first round of the programme, including the: governance arrangements; development of the database; conduct of the assessments; merit-listing; and decision-making. The audit did not examine other aspects of the programme, such as the ongoing management of the agreements, or the second MBSP funding round.

1.13 In conducting the audit, the ANAO examined departmental records relating to the administration of the programme, including governance procedures, implementation plans and application and eligibility assessment documentation. The ANAO also interviewed departmental staff and stakeholders, including funding applicants, relevant state government entities and received input from industry and consumers.

1.14 The audit was conducted in accordance with the ANAO's Auditing Standards at a cost to the ANAO of approximately \$449 000.

9 Prime Minister and Minister for Communications, Joint Press Release, *Abbott Government commits \$60 million to Round 2 of Mobile Black Spot Programme*, 25 June 2015. The contingency reserve is an allowance that principally reflects anticipated events that cannot be assigned to individual programmes in the preparation of the Australian Government budget estimates.

2. Access to funding

Areas examined

The ANAO examined whether mobile black spots were effectively identified to guide the location of proposed base stations and whether appropriate programme guidelines were established that supported a value for money outcome in the context of the MBSP objectives.

Conclusion

The department's Database of Reported Locations included sufficient location information on areas with partial, poor and no mobile coverage to guide the location of proposed base stations consistent with the intent of the programme. The promotion of opportunities for the public to nominate black spots through awareness forums was not, however, undertaken in a consistent manner across targeted electorates.

The guidelines developed by the department and approved by government facilitated the application process and largely aligned with the objectives of the programme. However, the lack of minimum new coverage requirements and threshold scores for assessment criteria impacted on the extent to which outcomes and value with public money were achieved.

Areas for improvement

The ANAO made one recommendation aimed at better targeting the award of funding under the MBSP to proposals that support the achievement of programme objectives and deliver value for money outcomes.

The ANAO has also suggested that the department: provide additional information on Member of Parliament priority locations to co-contributors; and develop indicators of community need and specific local issues to inform future policy development.

Were black spots effectively identified to guide the location of proposed base stations?

The department appropriately identified black spots to guide the location of proposed base stations to be funded under the MBSP through its Database of Reported Locations, which listed over 6000 publicly nominated areas with partial, poor and no mobile coverage. The approach taken to promote the programme across targeted electorates was not, however, consistently conducted and this may have had an impact on the distribution of nominations across electorates.

2.1 Publicly available mobile coverage maps are based on modelling of predicted coverage. However, user experience of mobile coverage can vary by device, network and a range of other factors, including the physical features of the landscape. The department does not hold reliable data on the quality and extent of actual mobile coverage across Australia.

2.2 In the absence of reliable data to identify black spots for potential funding under the MBSP, the department developed a spreadsheet that it referred to as the Database of Reported Locations (the database) to collate information on locations with reported inadequate coverage. To be eligible for funding under Round 1 of the programme, the guidelines established for the programme by the department required applicants to propose new base stations or upgrades to

existing stations to cover at least one black spot listed on the database. The guidelines also indicated that:

it will only be possible to address a portion of these reported locations through the Programme, and therefore it is very important that the areas of highest need are identified.

Populating the Database of Reported Locations

2.3 To populate the database, the department called for public nominations of outer metropolitan, regional and remote areas with poor mobile coverage. These nominations could be made by telephone (dedicated 1800 number), post or email to the department or by contacting the Federal Member of Parliament representing those electorates targeted by the programme.¹⁰ Stakeholders, including state governments, local councils and industry groups were also informed of the programme and the public nomination process of black spots by letter.

2.4 The department did not provide guidance to stakeholders on how much information was required to nominate a black spot. As a result, the information supporting black spot nominations varied considerably across nominations. For example, some black spots were identified as a locality only (street name or town) whereas other black spots had been verified by their nominators through consultation with carriers, communities and included information on specific local issues.

2.5 The department advised the ANAO that it did not encourage mobile network operators to nominate black spots directly, as the intent was for the population of the database with black spot locations to be consumer driven. Evidence retained by the department did not indicate that network operators had directly nominated black spots, although one state had obtained a feasibility assessment of its nominations from an operator prior to submitting its nominations to the department. While engagement between a state government and an operator is necessary to negotiate co-contributions, other potential applicants may be disadvantaged in their participation in the programme if a state government chooses to work with only one operator.

2.6 During the nomination period (16 December 2013 to 15 October 2014), the department received over 10 000 nominations of black spot locations. Nominations were recorded and reviewed by the department. Documents retained by the department did not provide a clear basis on which to determine the extent to which the final list was complete and accurate. The final version of the database was publicly released with the programme guidelines on 8 December 2014, with 6221 eligible black spot locations listed across Australia.¹¹

Promotion by the department

2.7 The department promoted the programme and the nomination of black spots by writing to Members of Parliament, local councils and stakeholders and through its website¹², Twitter account¹³ and media releases. There was no paid advertising for the programme. The

10 The targeted electorates were those with less than 50 per cent of the electorate area defined by the Australian Bureau of Statistics as part of a major urban centre with a population of 100 000 or more, and which were not designated by the Australian Electoral Commission as 'Inner Metropolitan'.

11 The refinement of the list from over 10 000 nominations to 6221 included the removal of duplicate locations and ineligible areas under the programme.

12 Available from: <<https://www.communications.gov.au/what-we-do/phone/mobile-services-and-coverage/mobile-black-spot-programme>>.

13 Available from: <@CommsAu>.

Communication Strategy developed by the department for the programme outlined that the departmental website would be the central distribution point for online engagement. Any questions relating to the programme were to be directed to the department through its website, with responses to be posted in a Frequently Asked Questions page on the website. The department's website also provided stakeholders with information on those areas that were ineligible for funding under the programme.¹⁴ The website did not include specific information for residents within the 75 regional and remote electorates that were being targeted by the programme.¹⁵ In addition to these electorates, other electorates were also eligible to receive one or more mobile base stations under Round 1 of the programme, as they included locations outside a major urban centre.

2.8 The department informed the ANAO that, in addition to its own promotion activities, information about the programme was also provided through a series of awareness forums for consumers conducted by the then Parliamentary Secretary to the Minister for Communications.

Awareness forums

2.9 In the period from October 2013 and April 2015, the Parliamentary Secretary conducted awareness forums across 42 electorates to discuss regional communications-related issues, including access to broadband internet, mobile coverage and broadcasting. The awareness forums were conducted in all states. The department informed the ANAO that, while it was not involved in identifying the locations that forums would be held, it provided briefings to the Parliamentary Secretary when requested and subsequently monitored local press coverage arising from the forums.

2.10 All of the electorates visited by the Parliamentary Secretary were part of the 75 electorates targeted by the programme. The 75 targeted electorates ranged from 56-100 per cent eligible, based on the proportion of the electorate that contained ineligible areas (major urban centres). Of the electorates visited, 24 were 100 per cent eligible. Of the 33 targeted electorates where awareness forums were not held, seven were 100 per cent eligible, including four electorates held by a government member and three electorates held by the Opposition.¹⁶ A breakdown of the electorates where awareness forums had been conducted by party held is presented in Table 2.1. The impact of the awareness forums is discussed later in this chapter.

14 Ineligible areas were defined as areas located within the Urban Centres and Localities geographical units classified by the Australian Bureau of Statistics as 'Major Urban', that is with a population of 100 000 or more. A total of 41 electorates were ineligible to receive a base station under the programme because the entire electorate was within a major urban centre.

15 In addition to nominations from members of the public, black spot priority locations were obtained by the department directly from Members of Parliament representing targeted electorates.

16 References to Government, Opposition, independent and minor party held electorates in this report are based on the 44th Parliament following the 2013 Federal election.

Table 2.1: Awareness forums conducted by electorate and political party

Electorate held by	Targeted electorates	Targeted electorates visited¹
Government	55	40²
Percentage eligible: 99-100	36	31
73-99	13	8
55-73	6	1
Opposition	17	1
Percentage eligible: 99-100	4	0
73-99	11	1
55-73	2	0
Independents and Minor Party Members	3	1
Percentage eligible: 99-100	2	1
73-99	1	0
55-73	0	0
Total	75	42

Note 1: The following electorates were visited after 16 October 2014 when nominations closed: Corangamite, Lib; Pearce, Lib; Grey, Lib; McEwan, ALP; Dawson, LNP; Kennedy, KAP; Herbert, LNP, and Maranoa, LNP.

Note 2: Includes the electorates of Calare, Corangamite and Eden-Monaro which were visited twice.

Source: ANAO analysis of departmental information.

Identifying Member of Parliament priority locations

2.11 The assessment process developed for the MBSP by the department included a role for those Members of Parliament representing the 75 targeted electorates under the programme. These Members of Parliament were provided with an opportunity to nominate to the department up to three black spot locations that they considered to be a priority. As noted in Chapter 1, applicant proposals that covered an MP priority location were to be awarded an additional five points as part of the merit assessment process. While the involvement of Members of Parliament in an assessment process for a Commonwealth grants programme is novel, the programme guidelines indicated that MPs 'will have information regarding the specific local issues and the locations within their electorates that are in greatest need of mobile coverage'.

2.12 In May 2014, the department wrote to the 75 Members of Parliament in those electorates targeted under MBSP requesting their nominations. Guidance was not provided by the department in relation to those matters to be considered when nominating their priorities, such as specific local issues or seasonal demand. While this approach provided Members of Parliament with flexibility in the nomination process, the lack of guidance, such as the minimum details required to identify a black spot, resulted in considerable variation in the nominations provided to the department.

2.13 In total, MPs nominated 212 priority locations with six MPs nominating fewer than three priority locations.¹⁷ The department appropriately followed up with those Members of Parliament that had nominated more or less than three locations or priorities in ineligible locations.

2.14 While the names of the areas nominated as MP priority locations were shared with applicants, the geographic coordinates were withheld which made it difficult for applicants to accurately target their proposals to those areas.¹⁸ Other key co-contributors (state governments) were not provided with the list, which prevented them from aligning their funding support with those priorities. Providing more specific information on priority locations to applicants and potential co-contributors would enhance their overall usefulness in the application process. The impact of the MP priority locations on the assessment process is examined in Chapter 3.

Registering and reviewing black spot nominations

2.15 Once a nomination was received, it was recorded by the department and reviewed before being registered on the database. The key steps in registering nominations, which were manually intensive, involved the department:

- acknowledging (by phone or email) nominations received;
- confirming that the nomination was in an eligible area;
- electronically ‘pinning’ the location of each black spot on a map using online mapping software; and
- recording the coordinates of the blackspot (including latitude, longitude, suburb and street name) in the database.

2.16 The department was required to make assumptions about where to record the coordinates of black spots in those cases where the nominations lacked specific information (for example, a long section of road or a reference to a town). To consolidate black spots nominated more than once, the department made judgments to identify one black spot that represented the broader geographical area. The black spots registered were, therefore, considered by the department as an indicative location—representing the general suburb, locality or area that had been nominated, rather than specific addresses.

2.17 Given the greater than expected level of interest in the programme, additional departmental resources were required to process the black spot nominations. The risks to programme implementation arising from high levels of interest had not been identified by the department and, as a consequence, treatments to respond to high demand had not been developed. Further, the department had not developed a plan to guide the work required to develop and manage the database.

2.18 The department’s approach to identifying mobile black spots was pragmatic. It was based on the minimum information requirements necessary to identify a potential black spot—suburb, street name and location. The nominations were accepted at face value as the department

17 Of these six MPs, two nominated two locations; one nominated a single location; two did not nominate any locations; and one nominated five ineligible locations.

18 The department informed the ANAO that Members of Parliament had verbally requested that this information be held in confidence.

considered that mobile network operators were best placed to validate the existing mobile coverage of locations identified in the database.¹⁹

2.19 The database included nominations of areas of existing coverage (according to publicly available coverage maps). These nominations were not removed from the database. As a result, the database included areas with no coverage by any mobile network operator, as well as those with poor quality coverage and areas of existing coverage by at least one operator. This suggests that most locations were indicative of poor or partial coverage, rather than ‘black spots’ with no coverage.

2.20 To check the accuracy of the black spot data recorded within the database, the department released a draft of the database for nine days in October 2014 for public comment.²⁰ The department informed the ANAO that it subsequently reviewed the database for: correct assigning of location; inclusion of eligible areas; and duplicate registrations.

Distribution of registered black spots

2.21 Black spots were registered in 88 of the 109 electorates that contained eligible areas under the programme, including in all of the 75 targeted electorates. A breakdown of nominations registered by party held electorate is provided at Table 2.2.

Table 2.2: Distribution of registered black spots by party

Party	Number of electorates held	Total registered black spots ¹	Average
Government	62	5103	82
Opposition	22	651	30
Independents and Minor Party Members	4	466	117
Total	88	6220	71

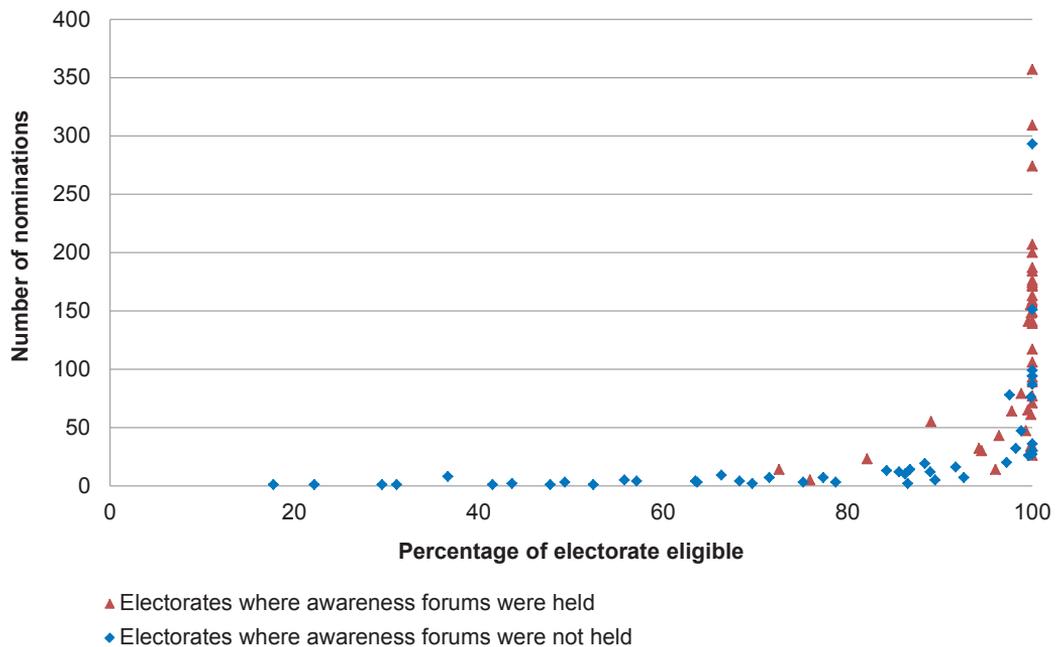
Note 1: A nomination received for an area outside of Australia’s electoral boundaries was not included.

Source: ANAO analysis of departmental information.

2.22 There was a general correlation between the number of nominated locations registered per electorate and the percentage of the electorate that contained eligible areas under the programme. As illustrated in Figure 2.1, there was a variation in the number of registered nominations in electorates that were 100 per cent eligible. This variation can, in part, be attributed to the differing levels of need, with the distribution of the population within large and small communities potentially impacting on the extent to which black spots are experienced. Further, the number of black spots registered in each electorate may not directly correlate with the number of nominations received, with the department removing duplicate locations.

19 Mobile network operators advised the ANAO that the database provided a reasonable starting point for the programme as it reflected a level of demand for improved coverage. They also recognised that the list included areas of existing coverage and did not consider it onerous to use the list to develop proposals.

20 The department received 515 additional nominations during this period.

Figure 2.1: Black spots registered by percentage of electorate eligible for funding

Source: ANAO analysis of departmental data.

2.23 The impact of awareness forums on nominations of black spots is difficult to accurately measure due to the range of factors that may influence community awareness about the programme, such as promotional activities by community groups, local councils and MPs. While acknowledging these factors, the rate of nominated locations registered from 100 per cent eligible electorates where awareness forums were held prior to the database closing was higher (155 average and 154 median nominations) than in 100 per cent eligible electorates where forums were not held or were held after the database closed (128 average and 99 median nominations). The department was aware of the increased local press coverage generated by the forums, but it did not consider that the conduct of forums in some electorates and not others detracted from its approach to promoting the programme. The department further informed the ANAO that it considered that there was a sufficient level of awareness of the programme and a reasonable opportunity for stakeholders to nominate black spots. Notwithstanding this view, the variability in registrations indicates that there would be benefit in the department analysing nomination data and trends to inform programme design parameters.

Did programme guidelines reflect the objectives of the programme?

The department developed programme guidelines that reflected the objectives of the programme and contained an appropriate range of information about the programme to facilitate the submission of applications, including the programme objectives, the assessment criteria and the approval process. The assessment criteria were largely aligned with the objectives of the programme, although there was scope for the department to have considered developing indicators of community need and specific local issues to inform the delivery of any future funding rounds.

Development of programme guidelines

2.24 To inform the development of the MBSP guidelines, the department:

- released a discussion paper on 16 December 2013, which generated 170 submissions from members of the public, industry and stakeholders; and
- held two workshops with the state government representatives and potential applicants in July 2014.²¹

2.25 The discussion paper generated stakeholder views on the broad design of the programme including three possible funding models: contracting a single operator (or consortium of operators); developing an order of merit for individual base stations from multiple operators; and infrastructure provider co-ordinated implementation. The subsequent workshops with states and potential applicants were used by the department to gain feedback on specific elements of the draft guidelines. The order of merit approach that was adopted by the department was approved by the Government.

2.26 Consistent with the Commonwealth Grants Rules and Guidelines²², the department completed a risk assessment of the granting activities and programme guidelines in consultation with the Department of Finance and the Department of the Prime Minister and Cabinet. The approval to release the guidelines was obtained from the Finance Minister in addition to the Prime Minister and the Minister for Infrastructure and Regional Development in accordance with the programme's overall risk rating of 'Medium'.

2.27 The department released the programme guidelines on 8 December 2014 and initially required applications to be submitted by 16 March 2015. An amended version of the guidelines was released on 22 December 2014, which extended the application period by one month, to 16 April 2015, in response to concerns raised by one potential applicant.²³

2.28 The guidelines appropriately outlined the: programme objectives; eligibility requirements; total funding available; the assessment criteria and associated scores (as outlined in Chapter 1, Table 1.1); approval process; programme timeframe; the appeals and complaints handling process; and five principles designed to promote an equitable distribution of funded base stations. Roles and responsibilities under the programme were also clarified, with the assessment of applications and merit-listing assigned to the department and decision-making on the award for funding to be undertaken by the then Minister.

21 The department engaged legal and probity consultants and sought input from: the Parliamentary Secretary, the Department of the Prime Minister and Cabinet, the Department of Finance and the Department of Infrastructure and Regional Development. The programme team also sought input from the department's legal team, technical advisory unit, mapping team and internal audit section.

22 Department of Finance, *Commonwealth Grants Rules and Guidelines, July 2014*, p. 11.

23 A potential applicant requested a six week extension for all applicants on the basis that the 13 week application period would not allow the development of detailed bids as agreements were required from a number of third parties each having their own governance processes. Concerns were also raised that the application period would impact the quality of bids and potentially reduce the value for money received from them and thus an extension for all applicants of six weeks, to 27 April 2015, was requested. The department approved a four week extension, to 16 April 2015.

Alignment of the assessment criteria to the objectives of the programme

2.29 A merit-based selection process was outlined in the guidelines as the method for selecting base stations for funding. Base stations would be funded based on merit score (highest to lowest) until Commonwealth funding was exhausted.

2.30 The assessment criteria aligned with the programme's objectives through the allocation of points for new coverage, coverage benefit, and service standards. Additional points were allocated for proposals that offered roaming services to all operators and for commitment of use or capability to be used, by other network operators. The level of Commonwealth funding sought also influenced the allocation of scores, with the assessment criteria placing considerable value on co-contributions provided and the resulting Commonwealth funding sought for each proposal.²⁴ Five points were also allocated for proposals that covered an MP priority, which was designed to address areas in need.

2.31 While acknowledging a benefit for consumers in extending an operator's network in areas where another operator already provides coverage, the focus of the programme on providing new coverage and coverage of additional premises and transport routes was emphasised in the criteria established for the programme. In particular, the Government's intention for the programme to fund areas where there is no existing coverage was reflected in assessment criteria 1(a) for new coverage, defined in the guidelines as:

The size (in square kilometres) of the mobile coverage footprint area which will receive new handheld coverage where previously there was no coverage at all from any mobile network operator.

2.32 Areas ineligible for funding included any operator's existing handheld coverage area.

Specific local issues

2.33 The guidelines established that, of the \$100 million allocated to the programme by the Commonwealth, \$20 million was reserved for base stations that addressed specific local issues and had a co-contribution (cash or in-kind) from state, territory or local governments, local communities or other contributing third parties. The equitable distribution principles outlined in the guidelines specified that, if less than \$20 million was allocated to address specific local issues, the remaining balance would be allocated to fund proposed base stations that had been nominated by a MP in order of merit. The guidelines did not define 'specific local issues' or contain provisions to assess if proposals addressed such matters. Ultimately, state and third party co-contributions and MP priority locations were used as a proxy for 'specific local issues'.

2.34 The department's database captured location information only, which was one element of community need for mobile coverage. Some nominations included additional information such as detailed site data, references to recent natural disasters, access to emergency services as well as potential economic and social benefits arising from regional businesses, tourism, education and cultural activities. The ANAO's analysis of black spot nominations indicated that around 18 per cent of emails from the public referred to the benefits of improved coverage for local

24 The guidelines were silent on the means by which states and third parties were to negotiate with potential applicants on co-contributions to proposals. As a result, the rationale for co-contributions varied between jurisdictions.

business. Other common themes that were indicative of specific local issues or consumer need included emergency services and tourism.²⁵

2.35 The department advised the ANAO that it did not analyse this data as it considered that:

There are few (if any) locations across the country that are not susceptible to natural disaster or emergency situations, and therefore all communities/locations could be considered to have valid claims as to requiring access to adequate and reliable mobile phone coverage.²⁶

2.36 In this context, the Regional Telecommunications Review 2015 noted in relation to the MBSP that:

Improved coverage in targeted geographies which yield social and economic benefits to a town or to a community are not easily measured under the current model of the MBSP. The current MBSP evaluation criteria could give higher weight to social and economic benefits that would accrue by extending mobile coverage to an area. Benefits might include economic returns associated with state priorities for regional development, or the deployment of mobiles in Indigenous communities to make Commonwealth and state outlays on existing programmes, such as health, more immediate and relevant, or coverage of major roads and highways carrying significant traffic volumes.²⁷

2.37 Feedback on the programme provided to the ANAO by stakeholders indicated that little consideration appeared to have been given to specific local issues or community need and that cost, rather than need, appeared to direct the selection of successful base station locations. The analysis of the information provided with nominations would have assisted the department to have better targeted programme funding to community need. While a more granular approach to determining community need comes with greater resource impost, the use of this information would have better positioned the department to identify specific local issues and target areas of greatest benefit. There is scope for the department to explore options for developing social and economic indicators of community need and objective measures of specific local issues to inform future policy development.²⁸

25 This sample was a subset of the emails received by the department. It does not include, for example, state government nominations made through the submissions process for the discussion paper. State government submissions made up approximately a quarter of nominations received.

26 While information supporting nominations was not captured in the database or analysed by the department, the ANAO observed that some responses by the Parliamentary Secretary to Communications and the department to black spot nominators suggested that nominators make their coverage issues known to their mobile network operator.

27 The government's response to the review, noted the need to enhance its economic data capabilities and the establishment of the Bureau of Communications Research as an economic and statistical research unit within the department to support evidence-based policy making in the communications sector.

28 The department informed the ANAO that it was investigating a range of potential methods of capturing information regarding regional mobile black spots, including the development of a smartphone application to 'crowdsource' such information.

Did the guidelines promote value for money programme outcomes?

While the department considered that it had designed the guidelines to achieve maximum value for money, weaknesses in aspects of the guidelines impacted on this outcome. In particular, the absence of a minimum coverage requirement and threshold scores for each criterion enabled lower ranked proposals, with minimal new coverage and competition outcomes, to be selected for funding.

2.38 The department considered that the role of the MBSP guidelines was ‘to ensure the programme is delivered as efficiently and effectively as possible, and achieve maximum value for money’. While the guidelines did not directly define value for money within the selection criteria or outline how value for money would be considered, the equitable distribution principles referred to value for money as a consideration in their implementation to, for example, provide equitable distribution of outcomes across jurisdictions.

2.39 Value for money can be inferred by the extent to which the programme promotes outcomes that would not otherwise occur (referred to as additionality). The programme guidelines provided for additionality to be considered as part of the assessment process by specifying that proposals that were included on an applicant’s forward work plan were ineligible for funding. However, the guidelines did not require the department to consider the extent to which an applicant’s proposed base station covered a black spot that would be addressed by future deployments on another applicant’s forward-build plan.²⁹

2.40 Value for money is also reflected by the extent to which selected proposals achieve programme objectives within the available funding (that is, cost-benefit). The guidelines relied on the ranking of a cost-benefit ratio (through the selection criteria) between competing base stations to determine comparative high and low value for money. The department considered that the requirement for applicants to significantly contribute to the cost of providing improved mobile coverage, state co-contributions and competitive tension between proposals (applicants and locations) would provide some pricing discipline to enhance value for money outcomes.

2.41 The selection criteria attempted to balance the relative values of improved coverage and competition (assessment criteria 1, 2, 3, 6 and 7) with cost (assessment criteria 4 and 5). However, given the absence of minimum coverage requirements and minimum merit scores for criteria for new coverage and coverage benefit, base stations remained in contention for selection, even when they scored poorly against these coverage and competition criteria, if they scored highly against cost related criteria, such as co-contributions.

Minimum coverage requirements

2.42 The establishment of minimum coverage requirements within the criteria was considered by the department in developing the programme’s guidelines. A draft of the guidelines included a requirement for at least 65 per cent of the coverage provided by a proposed base station to be new coverage (not already provided by another mobile network operator). The department advised the ANAO that, following a meeting with the Parliamentary Secretary in June 2014, the requirement was removed because it was considered that:

²⁹ For example, an eligible base station may be awarded funding in accordance with the guidelines even if the location it serves would likely have been covered through normal commercial investment by a competitor.

- the awarding of up to 10 points for new coverage in the assessment criteria was significant;
- potential applicants were limited in their ability to estimate the proportion of their proposed coverage beyond the existing coverage of other operators; and
- the subsequent risk of a proposed base station with minimal new coverage being successful was considered acceptable.

2.43 The department informed the Minister of the risk that proposals may be funded that provide minimal new coverage and advised:

The rationale for not specifying a minimum amount of new coverage is that the programme assessment process inherently favours the benefits of new coverage. For example, the assessment criteria awards additional points to base stations according to the number of premises and lengths of major roads to receive new coverage, in addition to the amount of additional raw coverage in square kilometres.

In addition, it is expected that applicants may propose base stations that provide mobile coverage to communities that are immediately adjacent to, or surrounded by, an area that already receives coverage. Introducing a minimum 'new coverage' requirement could result in such a community being ineligible for funding, despite the potential benefits to be gained ...

It will be open to the Minister not to accept such proposals if, in the end, the view is that they do not adequately address any of the evaluation criteria including the value for money to the Commonwealth.

2.44 The guidelines developed by the department for Round 2 of the programme, which were released in February 2016, include minimum new coverage requirements for proposals to be eligible for funding.³⁰

Limitations of the scoring approach used

2.45 The set range of scores that may be awarded under each criterion and their relative weighting should target funding towards proposals that best meet the programme's objectives. The department had placed a strong emphasis on the 'cost to the Commonwealth' where each proposal initially received 50 points for the criteria with one point deducted for every \$10 000 incurred by the Commonwealth. Conversely, less emphasis was placed on 'new coverage' with proposals awarded up to 10 points for this criterion. The guidelines also included two uncapped criteria—'coverage benefit' and 'co-contributions'.

2.46 The guidelines did not require applicants to achieve a minimum or threshold score for any of the seven selection criteria. Additionally, the guidelines did not establish an overall minimum score that proposals must achieve. This approach enables base stations with significant co-contributions to achieve high overall scores—and consequently a high ranking—even in those circumstances where they were assessed as having little or no merit against new coverage and coverage benefit. The approach also allows proposals with relatively low overall scores to be assessed as eligible for funding.

30 The guidelines for Round 2 of the programme require a minimum new or upgraded handheld coverage of 10 km² for macrocell base stations and five km² for small cell base stations.

2.47 The department informed the ANAO that it had considered establishing minimum or threshold scores for merit criteria during the development of the guidelines. At that time, the department concluded that threshold scores would be very subjective, arbitrary and would result in base stations that met programme objectives being ineligible.³¹

2.48 As a consequence, proposals with minimal new coverage and low merit scores remained eligible for funding. To manage the risk of funding base stations with minimal new coverage and support value for money outcomes from future funding rounds, the department should adopt minimum scores under each criterion. The selection of proposals with minimal new coverage is examined in Chapter 3, and the management of programme risks is examined in Chapter 4.

Recommendation No.1

2.49 To better target the award of funding to proposals that support the achievement of Mobile Black Spot Programme objectives and maximise value for money outcomes, the ANAO recommends that the Department of Communications and the Arts establish minimum scores for assessment criteria.

Department of Communications and the Arts' response: *Agreed.*

2.50 The department accepts the ANAO's recommendation, and notes that the assessment criteria for round 2 of the Mobile Black Spot Programme includes minimum coverage outcomes to be achieved by the funded mobile telecommunications infrastructure.

31 The department was unable to locate records of its consideration of the establishment of a threshold score for funding eligibility during the development of the guidelines.

3. Assessment and selection of base stations

Areas examined

The ANAO examined whether the Department of Communications and the Arts assessed applications in accordance with the requirements established in the published guidelines, applied eligibility requirements fairly, scored proposals with sufficient rigour and established a clear rationale for the merit listing of base stations and funding decisions.

Conclusion

The processes adopted by the department for the assessment and selection of base stations for MBSP funding were aligned with the approach outlined in the guidelines and subordinate assessment plan. The department did not, however, develop a sufficiently robust approach for the assessment of coverage claims and costs, which adversely impacted on timely and robust decision-making. Once the assessment was complete, the department documented a clear rationale for the selected funding proposals that was in accordance with the requirements established in the guidelines. Notwithstanding the general robustness of the process, weaknesses in the design of merit criteria resulted in 89 of the selected proposals (allocated \$28 million in state and Commonwealth Government funding) undermining value for money given the minimal new coverage for premises or roads provided.

Areas for improvement

The ANAO made one recommendation aimed at strengthening the timeliness and rigour of the department's assessment of coverage claims and costs of proposals.

The ANAO has also suggested that the department: review the approach to assessing overlapping coverage of the proposals of each applicant to help ensure that the award of funding is targeted to areas of greatest need; and compare the proximity of applicant proposals to their competitor's forward build plans to help demonstrate that programme funding directly supports outcomes that are in addition to normal commercial investment.

Were applications assessed in accordance with the guidelines?

The department received four applications (that contained 555 proposals for new and upgraded base stations seeking \$134 million in Commonwealth funding) that, overall, were assessed in accordance with the requirements established in the programme guidelines.

3.1 By the close of the application period on 16 April 2015, the department had received applications from three mobile network operators and one mobile network infrastructure provider. The four applications proposed 555 individual base stations and clusters of base stations and sought \$134 million from the Commonwealth. The key features of the assessment process included an eligibility assessment, the assessment of coverage claims and costs, and the application of the equitable distribution principles. The assessment process was based on desktop analysis and did not include site visits or radio frequency validation.

3.2 Overall, the department's assessment of applications was in accordance with the processes outlined in the guidelines and proposal assessment plan (called an Evaluation Plan by the department) although some steps were conducted in a different sequence. The assessment process was recorded in the meeting papers of the department's Evaluation Committee. The

department's decision to change the order of assessment activities was not unreasonable, with no adverse impacts identified in the change from the planned approach.

Were eligibility requirements applied fairly?

The eligibility requirements outlined in the guidelines were applied fairly, with all assessments appropriately documented and retained by the department. The eligibility assessment process resulted in one applicant, a mobile network infrastructure provider, being excluded from further consideration.

3.3 There were five steps involved in the department's assessment of eligibility, as outlined below:

1. Base Station Assessment Tool integrity review

Checked whether the formatting of the spreadsheet file containing the base station proposal information returned by the applicant matched the template originally provided by the department.

2. Application completeness check

Checked whether the applicant had provided all the required information in their application.

3. Applicant eligibility report

Confirmed that the applicant was an eligible mobile network operator or mobile network infrastructure provider.

4. Initial Assessment: Minimum Requirements Assessment

Assessed whether applications met the minimum *Operational Agreements* conditions outlined in the guidelines, including:

- services required;
- open access and co-location;
- backhaul access and pricing; and
- dispute resolution.

5. Initial eligibility completeness assessment

Provided the overall assessment of the application and recommendations to the department's application Evaluation Committee.

3.4 Eligibility assessment decisions in relation to mobile coverage were not taken during the initial stages of the assessment process, as these were subject to a separate process of assessment of coverage claims and mapping of coverage benefits. Overall, the range of eligibility assessments designed by the department supported the determination of eligibility in accordance with the guidelines. The department's conduct of eligibility assessment was well documented.

3.5 Following its assessment and subsequent advice provided by the probity adviser, the department determined that the mobile network infrastructure provider's application was ineligible on the basis that the applicant had submitted an incomplete application. All three remaining applicants were determined to be eligible and were assessed as meeting the minimum requirements for the programme.

Was the merit of each proposal assessed and scored with sufficient rigour?

The proposals for base station funding submitted by the three applicants were assessed and scored in accordance with the guidelines, but the department's assessment of applicant costings for proposed base stations lacked sufficient rigour. There was scope for the department to have better prepared for the assessment of coverage claims and applicant costs. The assessment of aspects of submitted applications presented a number of challenges for the department, particularly in relation to the assessment of applicants' coverage claims, with the department required to modify its approach during the course of assessment.

Assessment against the merit criteria

3.6 To assess applicants' proposed base stations against the seven merit criteria outlined in the guidelines (see earlier Table 1.1), the department used data and cost information submitted by applicants and obtained assistance from advisers.³² For example, applicants' submitted information, such as the location of the proposed base station, whether it was a greenfield or brownfield proposal, funding sought from the Commonwealth, and co-contributions to be provided by the applicant and relevant state government. This information was included in a Base Station Assessment Tool (BSAT—a spreadsheet template developed by the department and provided to applicants). The spreadsheets were then used by the department to record assessed coverage claims, calculate scores using formulae, and collate a merit list of all proposals. In particular, the spreadsheets were used to calculate scores for co-contributions, service offering and commitment of use. The ANAO found that the BSAT appropriately reflected the assessment criteria outlined in the published guidelines³³, with the department establishing a suitable process to review the accuracy of applicants' completed BSATs. The department used the input of its advisers to assess coverage claims and costs.

Assessing coverage claims made by applicants

3.7 The assessment of coverage claims was a complex, technically demanding and time consuming task that involved modelling each proposal's projected coverage in square kilometres (km²) on a topographic map, with this modelling subsequently overlaid with maps of existing coverage to identify areas of new coverage where previously there was none. The department then calculated the size of the new coverage area and the number of new premises and length of transport route(s) (major roads and rail kilometres) covered.³⁴ Given the complex nature and importance of this aspect of the assessment process, it would have been prudent for the department to have developed an appropriately structured methodology to guide the assessment and to have piloted the methodology to determine its applicability.

32 A technical adviser provided assistance to assess new coverage, coverage benefit and MP priority coverage and a financial adviser provided advice on applicant cost structures.

33 The BSAT noted that the department would separately assess whether MP priority locations had been covered and adjust points where needed.

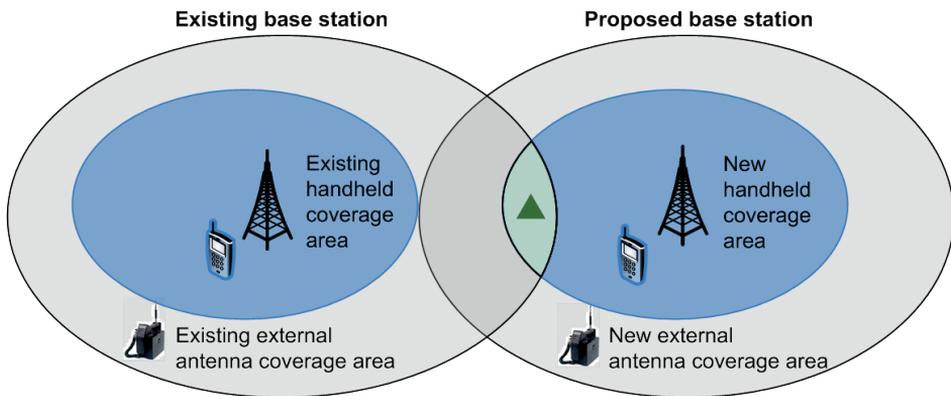
34 Related work included separating proposed coverage into new handheld, new external antenna, and upgraded existing antenna to new handheld, removing coverage in non-eligible locations, and assessing coverage of black spot locations, proximity to forward build plan sites, proximity to MP priority locations and overlapping base station and clusters of base station coverage.

3.8 In March 2015, three months after the application period opened, the department engaged an external technical adviser to assist in verifying the data provided by applicants and assess the proposed coverage of each base station proposal. As part of the assessment process, the technical adviser, through the department, obtained clarifications from applicants on the technical specifications of the provided data.³⁵ The technical adviser informed the department that the coverage modelling methodology of the three applicants, while differing in some respects, was based on valid assumptions and in line with acceptable industry standards.

3.9 The scope of work outlined for the adviser, the report and maps produced by the adviser, and the use of the adviser’s work by the department, underpinned the department’s coverage assessment. As outlined earlier, the department did not establish a structured methodology for the assessment of coverage claims, including how it intended to use the work of the technical adviser to assess proposals.

3.10 To score each proposal against the coverage related criteria, the department and technical adviser mapped new coverage in categories of ‘new handheld coverage’, ‘new external antenna coverage’ and ‘upgraded external antenna to handheld coverage’. These categories are illustrated in Figure 3.1.

Figure 3.1: Categories of mobile coverage



Handheld coverage: refers to mobile coverage which can be obtained using a mobile device.

External antenna coverage: refers to coverage which can be obtained using a mobile device connected to an external antenna typically attached to a vehicle or to a building. Connecting the mobile device to an external antenna allows the user to make or receive calls in areas where the signal from the mobile base station is weaker.

▲ Upgraded new handheld coverage from existing external antenna coverage area.

Note: When coverage is projected onto a topographical map, the coverage area appears as a splatter, rather than a smooth, continuous circle.

Source: ANAO analysis of departmental information.

35 One applicant was required to resubmit its external antenna coverage data based on the required specifications.

3.11 The mapping of coverage claims was initially undertaken on mapping software that was not suitable for the task and alternative software was required. 'Custom transformers' (technical workarounds) were developed to prevent data loss. The development of the custom transformations, re-running mapping and conducting visual validations resulted in unanticipated delays to aspects of the assessment process, although overall timeframes for the assessment process were met. The piloting of the proposed assessment, as suggested earlier, may have better prepared the department for this work.

3.12 The difficulties that arose during the assessment of coverage claims process were largely managed through the department's close working relationship with the technical adviser and the iterative problem-solving approach adopted. The ANAO did not identify any adverse impact on the calculation of merit scores.

Assessing proposed base station's coverage of identified black spots

3.13 To assess whether proposed base stations would deliver improved coverage to one or more identified black spots, the technical adviser analysed the distance from the edge of each base station's coverage footprint to the nearest black spot on the database. This analysis indicated that all proposed base stations, except one, would improve (to varying degrees) mobile coverage to an identified black spot.³⁶

Assessing new coverage, coverage benefits and coverage of MP priorities

3.14 The technical adviser calculated the size of new coverage being provided, the number of premises and the number of kilometres of major transport routes included within the new coverage area (coverage benefits) and alignment to the priorities identified by Members of Parliament. Outcomes from the coverage assessments were recorded in spreadsheets and converted into scores through the application of formulae.

3.15 While one proposal was assessed as not providing any new coverage (once existing coverage in the area was subtracted from the total coverage footprint to be provided), the remaining base station proposals were found to provide new coverage in the form of new handheld, external antenna or upgraded handheld coverage from existing external coverage. Based on departmental data, the ANAO found that new coverage per proposed base station ranged from 7534 km² to 0.00019 km². Of the 555 proposals mapped, 35 would provide new coverage to an area of less than one km². Of these 35, nine offered less than 0.1 km² of new coverage and three proposals offered less than 0.01 km² of new coverage.

3.16 Most proposed base stations were found to cover at least one premise (averaging 50) or one kilometre of a major transport route (averaging 11 km), although 52 of all assessed base stations did not offer any new coverage of premises or major transport routes. Of the 555 proposed base stations, 162 addressed an MP priority location within the station's total coverage area.

Assessment of cost

3.17 The guidelines required applicants to provide the estimated cost per base station for construction and installation, connection of mobile signals from the base station to the carrier's

36 One proposed base station's projected external antenna coverage was approximately 15 kilometres away from the nearest registered black spot. In this case, the department decided that the proposal would provide 'coverage to the broader geographical area of nominated black spot' and as such, considered that it met the guidelines, which stipulated 'improved mobile coverage to an area identified in the database'.

core network, and site acquisition and preparation (including the provision of power). Taking into account co-contributions from applicants and other funding sources, the total cost of all base stations proposed was \$420 million. Across all proposals, the applicants committed \$194 million in co-contributions and had obtained \$92 million in state and third party co-contributions.

3.18 A detailed cost breakdown or description of works and their estimated cost per base station was not required from applicants. As a result, the information provided in applications did not indicate the basis on which applicants identified proposals as greenfield or brownfield, whether proposals intended to leverage off existing infrastructure, whether new towers were to be steel lattice or monopoles, or the type of equipment shelter build proposed. The department considered that proposed costs would reflect broad estimates by the applicants rather than detailed planning. By not requesting this information in the applications, the department was not well placed to assess and demonstrate the reasonableness of the estimates provided.

3.19 As was the case with the assessment of proposed coverage claims outlined in applications, the department did not establish a detailed methodology for the assessment of proposal costs. In March 2015, three months after the application period opened, the department engaged an external financial adviser to assist in the assessment of the base station costs outlined in each proposal and to value the in-kind contributions by state and territory governments, local councils and other third parties.

3.20 The financial adviser reviewed the available cost information included in the three eligible applications, obtained (via the department) and assessed additional information from applicants, and modelled the expected costs of each proposal based on the applicant's estimates of the capital cost components. The adviser noted that the funding model encouraged applicants to quote deployment costs at higher than market rates in order to mitigate the risk of under-estimating costs.³⁷ The consultant's modelled costs indicated that applicants had over-estimated costs by up to 35 per cent. While the department subsequently raised concerns to the ANAO about the appropriateness of the methodology used by the financial adviser, the ANAO notes that the financial adviser implemented the methodology that was agreed with the department at the time of engagement.

3.21 The adviser's draft working paper³⁸ also noted the risk that public funding may be used to improve private network infrastructure not directly related to the proposed base stations:

at a number of base stations, [applicant name] have included in their cost estimates significant upgrades for their existing 'core network' as a result of adding a new mobile base station to the edge of the network. While we have little information on how [applicant] came to conclude that it needed these core network upgrades, we remain a little sceptical that the addition of a single new black-spot mobile base station (presumably generating only modest traffic) would be the tipping point for the requirement of an entire core network upgrade that would also potentially benefit many other base stations and/or other services (e.g. fixed broadband) unrelated to the blackspot.

37 The draft funding deed included 'claw-back' provisions to allow Commonwealth funding to be proportionately reduced if actual costs are less than estimated costs. The claw-back provisions are discussed further in Chapter 4.

38 The department did not request a final report from the financial adviser. Further, there was little evidence to indicate that the advice provided by the adviser was considered by the Evaluation Committee.

3.22 In contrast to the concerns raised by the financial adviser, the department accepted the applicant's inclusion of costs to strengthen its core network, taking the view that the applicant was the 'network specialist' and had deemed it necessary as part of its proposal. Notwithstanding this view, as the delivery entity for the programme, the department was responsible for ensuring that the provision of funding for proposed base stations represented a proper use of public funds—that is, it was effective, efficient, economical and ethical.³⁹ Given the reliance that the department placed on the expertise of the applicant, it was not well placed to demonstrate the efficient and economical use of programme funds.

3.23 All applicant cost figures were accepted by the department. The additional cost information requested from applicants by the financial adviser was taken by the department as further assurance in relation to the cost of deployment. The department did not consider negotiating with applicants on costs or seek probity advice on other possible avenues to scrutinise or minimise costs. The department's proposed assessment report (Evaluation Report) noted that, while costs 'may be higher than expected in some cases', the proposed claw-back provisions of the funding deed will help mitigate the risk to the Commonwealth of payment above market rates. In this context, it is important to note that the funding agreements negotiated with successful applicants departed from the strong claw-back provisions originally foreshadowed in the guidelines, by enabling applicants to accumulate under-spends in funding pools. Aspects of the funding agreements are examined further in Chapter 4.

3.24 Overall, the department's assessment of costs included in MBSP applications was not sufficiently robust and primarily relied on the achievement of price discipline through competitive tension between applicants and proposals and rewarding base stations requiring less Commonwealth funding with greater points. The department allocated points based on the original costs submitted with proposals and accepted those costs based on its anticipated use of claw-back provisions in the management of funding agreements. In relation to future rounds of the programme, the department should develop an appropriately detailed methodology for the assessment of applicant coverage claims and costs to promote more timely and robust decision-making and to demonstrate that expenditure under the programme represents a proper use of public funds.

Recommendation No.2

3.25 To promote timely and robust assessment and to demonstrate that expenditure under the programme represents a proper use of public funds, the ANAO recommends that the Department of Communications and the Arts implement an appropriately detailed assessment methodology tailored to the objectives of the programme.

Department of Communications and the Arts' response: *Agreed.*

3.26 The department accepts the ANAO's recommendation and will further enhance the assessment documentation which has been developed to evaluate the mobile telecommunications infrastructure proposed under round 2 of the programme.

39 Section 15, *Public Governance, Performance and Accountability Act 2013*.

Was there a clear rationale for the merit list of base stations and funding decisions?

The basis on which the merit list of base stations was developed was appropriately supported by documentation, with funding decisions made in accordance with the recommendations arising from the assessment process. All eligible proposed base stations were ranked in order of the assigned assessment score (from highest to lowest) and the equitable distribution principles were applied in accordance with the requirements outlined in the published programme guidelines. As a result, the proposals of one applicant (Optus) were not recommended for funding. The electoral distribution of selected base stations was primarily driven by the area that operators chose to locate their proposals and the level of co-contributions that had been committed.

Compiling the draft merit list

3.27 To compile the draft merit list, all eligible proposals were ranked in order of score, from highest to lowest. Across all proposals, the average score was 77 points (given uncapped scoring for some criteria there was no maximum score) with the highest ranked base station receiving 200 points and the lowest ranked receiving minus seven points.⁴⁰ The department calculated and recorded scores in a spreadsheet. The department informed the ANAO that members of the project team visually checked the spreadsheet to help ensure accuracy and completeness of the scores during the development of the draft merit list. An examination by the ANAO of the formulae used to convert values (such as amount of new coverage or number of premises) into points indicated that the spreadsheets and calculations appropriately reflected the selection criteria. The ANAO did not identify any discrepancies in the scores.

3.28 Less than 40 per cent of selected base stations were awarded points for new coverage, as the number of square kilometres that needed to be achieved to be awarded a single point (200 km² for new handheld coverage) was too large for base stations proposed in areas where there was existing coverage. All proposals scored points for providing 4G services, in addition to the minimum requirement of 3G technology. No proposals were awarded points for the commitment of an additional provider to also utilise the proposed base station and deliver the specified services on a commercial basis for a minimum of 10 years, though most were allocated points for the proposal being capable of supporting additional providers in the future. A summary of maximum and minimum scores awarded for merit assessed proposals and average scores against the selection criteria is outlined in Table 3.1.

⁴⁰ Proposals lost points if applicants committed a co-contribution of less than 50 per cent of the total cost. Six proposals did not score sufficient points to offset a negative co-contribution score.

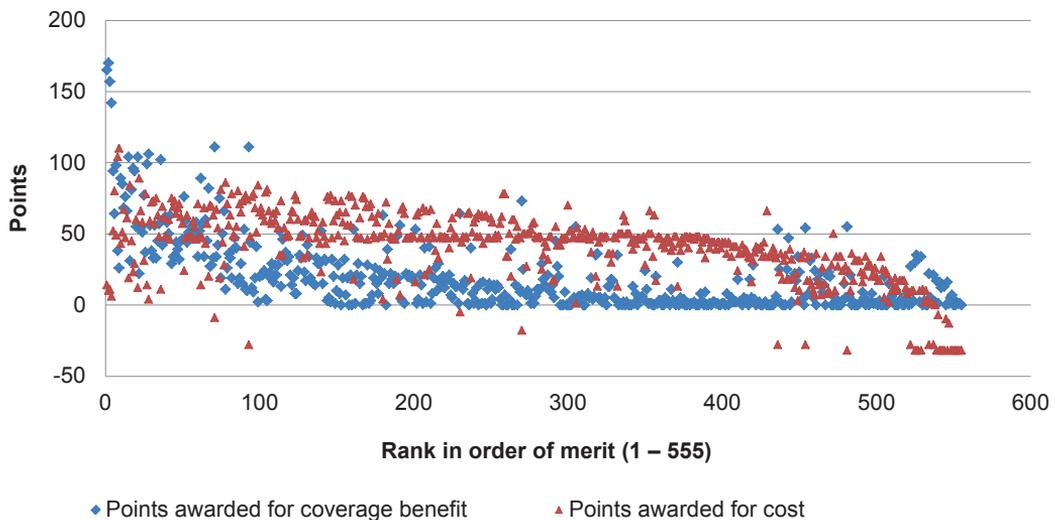
Table 3.1: Summary of actual scores awarded for merit assessed proposals

Criteria	Maximum score available	Maximum award	Minimum award	Average
New coverage	10	10	0	0.9
Coverage benefit	Uncapped	170	0	19.0
Member of Parliament priority	5	5	0	–
Co-contributions	Uncapped	78	-32	13.6
Cost to Commonwealth	50	50	0	26.8
Service offering	15	15	5	7.0
Commitment of use	20	10	0	8.4

Source: ANAO analysis of departmental information.

3.29 Scores related to the cost of proposals (cost to the Commonwealth and co-contributions) significantly influenced the ranking of proposals, compared with coverage benefit, as illustrated in Figure 3.2.

Figure 3.2: Points awarded for coverage benefit and cost by rank



Source: ANAO analysis of departmental information.

Application of the equitable distribution principles to the merit list of proposals

3.30 In preparing the draft merit list, the department had regard to the equitable distribution principles outlined in the programme guidelines. The department’s application of those principles was consistent with the guidelines (as outlined in Table 3.2).

Table 3.2: Application of the equitable distribution principles

Principle and requirement	Decision
<p>1. Equal distribution across states</p> <p>Minimum number of base stations to be selected for each jurisdiction—10 for each state and five for the Northern Territory.</p>	<p>No adjustment to the merit list was made as the minimum number of base stations were already on the merit list above the total funding cut off (\$100 million).</p> <p>As outlined at Table 1.2, Chapter 1, the number of selected base stations by jurisdiction, and mobile network operator is skewed towards Western Australia and the eastern states. This outcome reflects the volume of base stations proposed by applicants in those jurisdictions, which in turn correlates with the high level of co-contributions made by those jurisdictions.</p>
<p>2. Equal distribution within states</p> <p>Funding is to be recommended for at least one proposal in each targeted electorate.</p>	<p>No adjustment to the merit list was made. Of the 75 targeted electorates, 56 electorates had one or more proposed base station above the funding cut-off point and there were no base stations proposed in the remaining 19 electorates.</p>
<p>3. Addressing specific local issues</p> <p>Of the \$100 million, at least \$20 million was for base stations that address specific local issues and have a co-contribution from a state or third party.</p>	<p>As noted in Chapter 2, state and third party co-contributions and Member of Parliament priority locations were to be used as a proxy for specific local issues in the absence on an established measure. No adjustment to the merit list was made as almost \$80 million in Commonwealth funding had been allocated to proposals above the funding cut-off point that also attracted state or third party co-contributions. The department was not required to make a decision to alter the merit list.</p>
<p>4. Cap adjustment</p> <p>The department may recommend an increase in the level of Commonwealth funding per proposal above the \$500 000 cap to ensure that there are a sufficient number of proposals recommended for funding under Principles 1 and 2 or if not all of the Commonwealth’s \$100 million is allocated.</p>	<p>No adjustment to the merit list was made as Principles 1 and 2 had been met and the number of proposals below the funding cap exceeded the total funding available. As a result, 25 proposed base stations where requested Commonwealth funding exceeded the funding cap were not considered further and were removed from the merit list.</p>
<p>5. Multiple nominations</p> <p>Where two or more applicants proposed base stations covering the same or similar locations, the department is to recommend funding for the highest ranked base station only.</p>	<p>With the assistance of the technical adviser, the department reviewed 42 proposals that overlapped other proposals by more than 40 per cent, and an additional eight proposed base stations that were less than approximately 10 kilometres from another proposal. The department determined that 19 proposals be removed from the draft merit list, due to overlapping coverage, in accordance with the guidelines. In making its decision, the department considered the distance between the proposals, the extent of coverage overlap, cost to the Commonwealth, value of state co-contributions and points scored for each.</p>

Source: ANAO analysis of departmental information.

3.31 In considering overlapping coverage, the department did not take into account the extent to which points allocated to each proposed station were being awarded for their coverage of black spots outside their area of overlapping coverage. If two overlapping base stations scored points in areas outside their overlap or covered different black spots, there may have been a case for retaining both base stations on the merit list.

3.32 The department also did not compare overlapping coverage of proposed base stations of the same applicant. An applicant proposing more than one base station in the same area could

score points for each proposed base station in the area of coverage overlap. The ANAO identified 83 pairs of base stations from the same applicants that covered the same black spots, including six base stations that covered the same black spot exclusively with different types of coverage (that is handheld and external antenna) and 77 pairs where one covered a subset of black spots of the other. The department informed the ANAO that, although a number of base stations may offer coverage to the ‘pin’ of the nominated black spot, the coverage that each base station provides will vary, and will provide benefits to different areas.

3.33 There may be circumstances where an operator will require a series of new base stations with overlapping coverage to enable effective handover of calls between base stations and minimise call drop outs for callers while travelling. However, the rationale for overlapping coverage was not sufficiently transparent in the applications and the department’s approach to assessing those proposals was inconsistent with its approach to assessing proposals that had been identified by applicants as forming part of a cluster.⁴¹ In planning for the assessment of coverage claims in future MBSP rounds, the department should review its approach to assessing overlapping base station coverage to ensure that applicants do not unduly benefit from proposals in close proximity to each other and that the base station-by-base station assessment model directs funding to areas of greatest need.

Appropriateness of decision-making

3.34 The key decisions in the assessment of proposals, including the awarding of points and compilation of the merit list were conducted by the department in accordance with the guidelines and were appropriately documented. The recommended list of proposed base stations to the Parliamentary Secretary and the Minister was also consistent with the department’s assessment, merit-listing and application of the equitable distribution principles. On the basis of the advice provided by the department, on 4 June 2015, the Parliamentary Secretary reviewed the merit list and commended it to the Minister. On the same day, the Minister approved the award for funding for 501 proposals out of a merit list of 510.⁴² The remaining nine base stations were below the funding cut-off of \$100 million.

3.35 In seeking a decision on the final list of base stations, the department provided information—such as total cost to the Commonwealth and projected coverage outcomes for all proposals—to the Minister and highlighted 18 merit-listed brownfield base stations of one applicant that were proposed to co-locate on existing infrastructure where other operators already provided mobile coverage. The briefing noted that the proposed base stations provided minimal new coverage, but satisfied other requirements of the programme. The briefing prepared by the department did not sufficiently draw to the Minister’s attention relevant information about base stations that provided minimal new coverage, coverage benefits or the size of material new coverage of base stations—where a proponent’s new coverage overlaps with existing coverage of its competitors. (For example 51 recommended base stations did not provide any new handheld coverage and 89 base stations with requested Commonwealth funding of \$18 million and \$10 million in state government funding did not qualify for any points for coverage benefit.) As such,

41 The assessment of base station clusters included the averaging of points across the individual base stations within the six proposed clusters.

42 A breakdown of the proposals assessed, merit-listed and selected, is provided in Table 3.3.

the contribution of these base stations to the objectives of the programme was marginal. As noted in Chapter 2, it was open to the Minister not to accept such proposals.

3.36 Following consultation with states, on 12 June 2015 the Western Australian State Government withdrew co-contributions from three selected base stations (with \$339 500 in approved Commonwealth funding) due to overlapping coverage with other selected base stations of another operator. The department removed those base stations from the list of selected base stations and recommended that the then Minister reallocate the remaining funding to the highest ranked unfunded proposed base station (which was located in Queensland). On 16 June 2015, the Minister approved the recommended reallocation of funding. A summary of all proposals and base stations selected is provided in Table 3.3.

Table 3.3: Summary of all proposals and base stations selected

Proposals	Total
Proposals received	555
Merit assessed	555
Removed from merit list—no new coverage	1
Removed from merit list—overlapping coverage	19
Removed from merit list—exceeded funding cap	25
Merit list to Minister 4 June 2015	510
Originally selected base stations	501
Merit list to Minister 16 June 2015	507
Final selected base stations	499

Source: ANAO analysis of departmental information.

Coverage outcomes and distribution of the selected base stations

3.37 Most new coverage provided by selected base stations was in the form of new external antenna coverage and upgraded external antenna to handheld coverage.⁴³ This indicates that proposals generally tended to benefit areas on the fringes of existing coverage, with all base stations extending the existing coverage of at least one operator by at least 1.3 km². While all selected base stations provided some new coverage, of the base stations selected for funding:

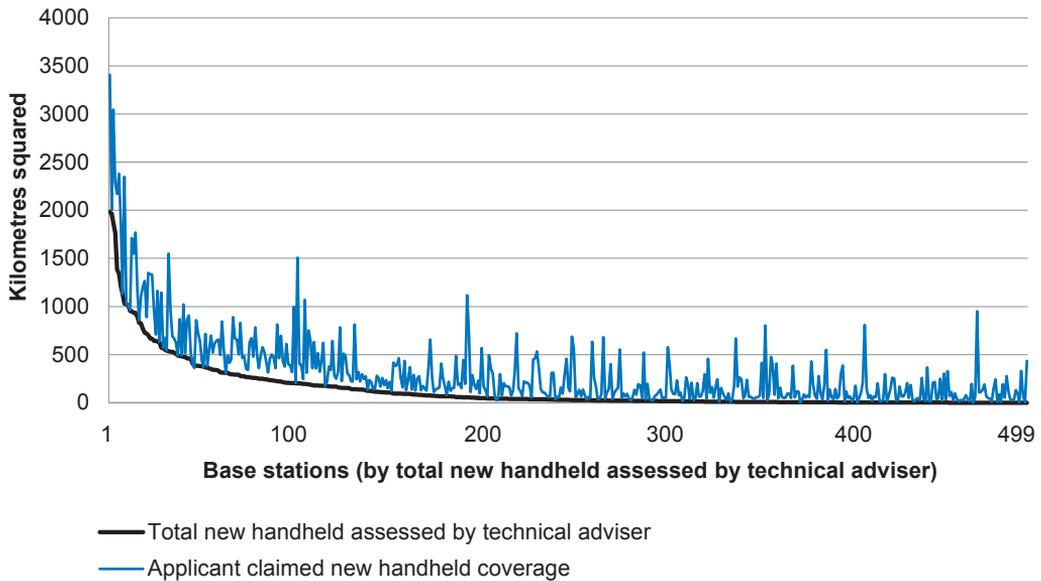
- 127 offered less than 10 km² of total new coverage;
- 77 base stations offered less than four km² of total new coverage; and
- 103 did not provide new handheld coverage greater than 0.005 km².

3.38 As noted in Chapter 2, areas ineligible for funding included part of any operator's existing handheld coverage area. Network expansion will, however, inevitably involve a degree of overlap with existing networks. The extent of new coverage and overlapping coverage provided by the selected base stations is presented in Figure 3.3. The difference between the total new handheld coverage (assessed by the technical adviser) and the applicants' claimed new handheld coverage,

⁴³ Around 76 per cent of the coverage to be provided by the selected base stations is to be located in inner and outer regional Australia (based on the ABS Remoteness Structure) and around 24 per cent of coverage by the selected base stations is to be located in remote and very remote Australia.

indicates the extent that the selected base stations' coverage overlaps with a competitors' existing coverage and ineligible areas. Many of the base stations that provide minimal new coverage (less than 10 km²), also provide relatively large areas of coverage that overlap with competitors and ineligible areas, at an average of 151 km². Eight of those base stations also provided minimal overlapping coverage at a combined cost of \$3.5 million to Commonwealth and state governments.

Figure 3.3: Size of assessed new coverage and applicant claimed coverage



Source: ANAO analysis of departmental information.

3.39 The additional coverage as mapped by the department, with the assistance of its technical adviser, indicated that of the 6221 black spots on the database, 3040 (49 per cent) were within handheld or external antenna coverage of the selected proposals. The ANAO's analysis of departmental data indicated that:

- all selected base stations covered at least one black spot with handheld coverage, with the exception of Hermannsburg in the Northern Territory, which the department decided covered the broader geographical area of the black spot;
- selected base stations covered an average of 12.8 black spots per station, ranging from 1–130 at an average distance of 14.9 km for handheld coverage and 29.8 for external antenna coverage;
- of the 3040 black spots covered, 514 are covered by handheld coverage only, 1850 are covered by external antenna coverage only, and 676 have both handheld and external coverage;
- 55 selected base stations covered one black spot each;
- 1439 black spots were covered by more than one station; and
- six pairs of base stations covered the same sets of black spots with different types of coverage (handheld or external antenna).

3.40 As outlined earlier, around 25 per cent of base stations selected (127) provided minimal new coverage (less than 10 km² each) at a cost to the Commonwealth of \$22.9 million. This, in part, is a result of the absence of a minimum standard of new coverage and threshold score for ranking, discussed in Chapter 2.

Electoral distribution of the selected proposals

3.41 The electoral distribution of selected base stations was primarily driven by the area that operators chose to locate their proposals. The other factors that influenced the distribution of selected base stations included the location of registered black spots (on the department's Database of Reported Locations), and the level of operator, state and third party co-contributions for proposals in particular locations. More than three-quarters (77 per cent) of successful proposals were located in 20 electorates, with the top three being the seats of O'Connor (WA, Liberal, marginal, rural, 60 base stations), Durack (WA, Liberal, marginal, rural, 45 base stations) and Indi (Victoria, Independent, rural, 30 base stations). The number of black spots nominated by electorate did not directly correlate with the number of base stations selected, with the proportion of base stations selected to black spots nominated by electorate ranging from 0.5 to 0.007 at an average of 0.08. There is, however, a general correlation between the selected base stations and the level of co-contributions offered.

3.42 The selected base stations were located within 56 of the 75 electorates targeted by the programme.⁴⁴ Of the 42 electorates where awareness forums were conducted (discussed in Chapter 2), 39 will receive 426 base stations at a rate of 11 base stations per electorate. The 73 base stations selected in the 18 electorates where awareness forums were not conducted averaged four base stations per electorate, 30 of which were located in one electorate (Indi). Electorates held by all parties received a proportion of base stations that offered minimal new coverage, although almost 70 per cent of base stations in Australian Labor Party held electorates provided minimal new coverage, significantly higher than the average rate across all electorates (25.5 per cent). The ANAO's analysis of the electoral distribution of selected base stations among parties, electorates where awareness forums were conducted, and distribution of base stations with minimal new coverage, is illustrated in Table 3.4.

44 One base station was in an eligible area of a non-targeted electorate (McPherson, Qld).

Table 3.4: Electoral distribution of selected base stations

	Government	Opposition	Independent and Minor Party Members	Total
Electorates in which base stations were selected	44	10	3	57
Average base stations per electorate	9.5	3.3	16.7	8.8
Average base stations per electorate where awareness forum conducted	11	2	18	10.9
Average base stations per electorate where awareness forum not conducted	1.4	3.4	16	4
Number of base stations providing minimal new coverage ¹	88	23	16	127
Percentage of base stations providing minimal new coverage (%)	21.1	69.7	32	25.5

Note 1: Minimal new coverage is considered less than 10 km² of total new coverage.

Source: ANAO analysis of departmental information.

3.43 While noting that the electoral distribution of selected base stations was primarily driven by the area that operators chose to locate their proposals, the distribution of funding indicates that average base stations selected per electorate were higher (10.9) in those electorates where awareness forums had been conducted than those that were not (4). Given the higher rate of registered black spots in electorates where these forums had been conducted (discussed in Chapter 2), there is scope for the department to review its approach to promoting the programme.

3.44 The average cost to the Commonwealth per base station in each group of party held electorates ranged from \$307 000 for 18 base stations in the electorate of Kennedy, held by the Katter Australia Party, to \$193 000 for 115 base stations in electorates held by the Nationals. Of the total Commonwealth funding allocated under the programme, 81.7 per cent was for base stations in Government held electorates, 11.5 per cent for base stations in independent and minor party held electorates and 6.8 per cent for base stations in Opposition held electorates.

Influence of MP priority nominations

3.45 The coverage of MP priority nominations was not a significant factor in the success of individual base station proposals. Of all proposals, 162 scored an additional five points for covering at least one of the 212 priorities nominated by 72 MPs (105 for handheld coverage and 57 for external antenna coverage).

Did funding decisions achieve value for money?

An assessment of indicators of value for money achieved by the programme, such as benefits for consumers from new coverage, showed mixed results. While handheld coverage is expected to be extended by 68 600 km² into new areas under the programme, up to 39 base stations were planned to be built in the same or similar areas (according to applicants' forward network expansion plans) without the need for public funding. Further, up to 89 base stations provided minimal benefits to consumers in areas that previously did not have any coverage and, as result, did not score a single point for coverage benefit. The award of \$28 million in state and Commonwealth funding to these 89 base stations undermined the value for money outcomes achieved from the programme. The extent to which competition is improved under the programme through the use of infrastructure by multiple operators is yet to be determined by applicants and the department.

3.46 Of the 507 eligible merit-listed proposed base stations, 499 (98 per cent) were awarded 26 points or more and approved for funding under the MBSP. The Commonwealth funding per base station under the programme averaged \$220 000 (incl. GST), with \$2.75 in funding generated from states, third parties and applicants for each Commonwealth dollar under the programme. Handheld coverage is to be extended by 68 600 km² into new areas where previously there was none. The department considered that these outcomes demonstrated that value was achieved from the public funding made available under the programme.

Programme additionality

3.47 The guidelines required applicants to provide their network expansion plans for 2014–15 to 2016–17 to demonstrate that they were not seeking Commonwealth funding for base stations where investments were planned. The three eligible applicants provided their plans and certified that none of the proposed base stations included in their application was at any time included in their network expansion plans.

3.48 One applicant listed two proposed base stations on its network expansion plan as 'acquisition only'.⁴⁵ The applicant advised the department that, while development applications may have been lodged for those sites, there was no guarantee they would be built. The department accepted the applicant's advice and decided that none of the proposed base stations were included on any applicants' own network expansion plans.

3.49 The department did not assess whether an applicant's proposed base station location was listed on the work plan of another applicant. The ANAO's proximity analysis indicated that a total of 39 selected base stations were located within 10 kilometres from a base station included on another applicant's network expansion plan.

3.50 This suggests that some selected base stations would have been built in the same or similar areas at some point in the future without the public funding available under the MBSP. In relation to future funding rounds, the department should review applicant proposals against the network expansion plans of other operators as an indicator of whether the programme is funding additional outcomes to normal commercial investment.

⁴⁵ Of the two proposals, one did not seek Commonwealth funding and had a state co-contribution of \$386 000. The other proposal sought \$274 000 in Commonwealth funding and had a state co-contribution of \$10 000. Both were merit-listed and approved for funding under the programme.

3.51 It is recognised that selected base stations, including those with minimal new coverage, offer improved coverage in areas already serviced by one or more competitors. While expanding coverage in areas serviced by other operators benefits consumers and promotes competition, the value of public funding in a market where there is already at least one operator may be drawn into question because that funding risks displacing the existing business incentive for other operators to extend services to customers in those areas.

Cost-benefit of technology and coverage outcomes

3.52 The base stations selected under the programme are to provide 68 600 km² of new handheld coverage with the combined \$192 million Commonwealth and state funding. Notably, 46 (9.2 per cent) of the 499 selected base stations provide no new coverage to either premises or major transport routes. A further 43 selected base stations did not provide enough coverage to qualify for a single point against the selection criteria for coverage benefit. These 89 base stations have a total cost to the public of \$28 million in Commonwealth and state commitments, including Commonwealth funding of \$18 million.⁴⁶

3.53 The 89 base stations offering minimal new coverage benefits to consumers provide greater value when the premises and kilometres of transport route within their overlapping coverage footprint are taken into account, as outlined in Table 3.5.

Table 3.5: Comparison of 89 base stations with minimal coverage benefits by type of coverage

	Technical adviser assessed	Applicant claimed	Difference
Average size handheld and upgraded handheld coverage	55.60 km ²	209.84 km ²	154.24 km ²
Total size handheld and upgraded handheld coverage	4947.61 km ²	18 675.74 km ²	13 728.13 km ²
Average premises covered and km of transport route	0.25 premises 0.17 km transport	210 premises 9.70 km transport	209.75 premises 9.53 km transport
Total premises covered and km of transport route	22 premises 15.22 km transport	18 694 premises 862.9 km transport	18 672 premises 847.68 km transport

Source: ANAO analysis of departmental information.

3.54 According to the applicants’ claimed new coverage (prior to the removal of existing coverage and ineligible areas) of the base stations awarded funding, 24 base stations would not have qualified for a single point for coverage benefit at a total cost to the Commonwealth of \$5.6 million and cost to the states of \$5.7 million (\$11.3 million public funding).

Leveraging existing infrastructure

3.55 Those base stations that are co-located with national broadband network (NBN) infrastructure are likely to have lower deployment costs due to the use of established infrastructure, including the tower and backhaul to connect with an applicant’s core network, where possible. As part of the application process, the department strongly encouraged potential

⁴⁶ While not directly comparable, the cost per premise covered was \$7761 and the cost per kilometre of major transport route was \$34 834.

applicants to consult with nbn co limited⁴⁷ and explore opportunities to co-locate proposed base stations on NBN fixed wireless towers and use of NBN as backhaul. At the time that the assessment of applications was undertaken, the department did not have information on those proposals that were to be co-located with NBN.

3.56 The 2014 NBN Co *Fixed Wireless and Satellite Review* observed that in most locations there is substantial overlap between NBN and existing mobile network operator coverage, so the potential opportunities to co-locate may be limited in areas targeted by the MBSP.⁴⁸ In January 2016, the department informed the ANAO that it expected up to 50 base stations to be co-located with NBN infrastructure. The ANAO's analysis of proposed base stations indicates that at least 32 selected base stations are likely to be co-located with NBN infrastructure due to their close proximity (within 10 metres) to current or proposed fixed wireless towers. A further 122 base stations were proposed within 10 km of current or planned NBN infrastructure.

Promoting competition

3.57 Although an objective of the programme was to improve competition within eligible areas where previously there was no coverage provided by any operator, all selected base stations extend coverage in areas where there is some existing coverage by an operator. The strengthening of existing coverage promotes competition by increasing the number of operators delivering services across a given area. Public funding in these areas potentially displaces market-driven competition.

3.58 The applicants did not include any commitments from an additional operator to co-locate their equipment on proposed base stations, but most (429) are to be capable of supporting an additional operator and some (70) are to offer network roaming. As at March 2016, negotiations on co-location between operators have not been finalised.

47 nbn co limited (nbn) was established in April 2009 to design, build and operate Australia's new broadband network.

48 nbn, *Fixed Wireless and Satellite Review*, 2014, p. 75.

4. Programme governance arrangements

Areas examined

The ANAO examined whether appropriate arrangements were in place for programme oversight, business planning, risk management, performance management and safeguarding public funds.

Conclusion

Governance arrangements established by the department provided an appropriate framework for the administration of the MBSP. Sound oversight arrangements were established to assess and merit-list proposals, although aspects of these arrangements were not effectively implemented. High level implementation, evaluation, and project management plans were appropriate to guide assessment. Key programme risks were documented and reviewed on an ad hoc basis. One identified key risk was realised—the selection of base stations that provided minimal new coverage.

The performance measures that have been developed for the programme do not enable the department to assess the extent to which the programme is achieving its objectives. The department should establish a performance measurement and evaluation framework to underpin the assessment of achievements against programme objectives. Further, the department should establish robust arrangements for the oversight of expenditure by funding recipients to safeguard public funds.

Areas for improvement

The ANAO made one recommendation aimed at improving the department’s monitoring and reporting of programme performance.

The ANAO also suggested: a more structured review of programme risks to better position the department to identify emerging and changing risks; and the department consider, as part of a future evaluation of the programme, whether funding recipients have efficiently allocated public funds without undue cost consistent with the objectives of the programme.

Were sound oversight arrangements established to support the programme?

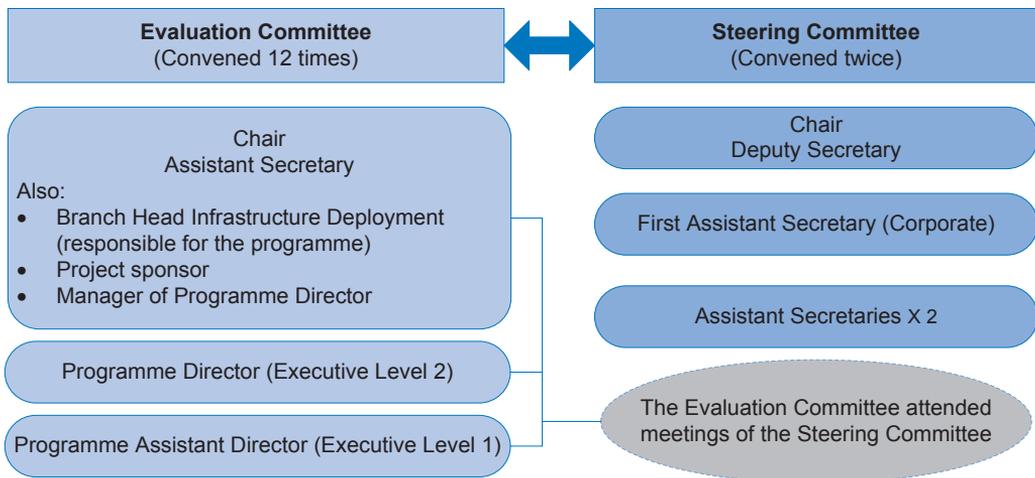
The oversight arrangements established for the MBSP provided an appropriate framework to govern the assessment and selection process, but implementation of aspects of the framework was not effective. In particular, the documentation retained by the department did not demonstrate that the Steering Committee discharged its responsibilities to oversee the work of the Evaluation Committee.

4.1 The key elements of the programme oversight arrangements were outlined in the programme guidelines, with the:

- department responsible for assessing and merit-listing base stations proposed in each application;
- Parliamentary Secretary to review the merit list before it was provided to the Minister⁴⁹; and
- Minister as decision-maker for the programme and responsible for the award of funding for base stations.

4.2 The department’s oversight arrangements for the assessment and merit-listing process included a Steering Committee and an Evaluation Committee (outlined in Figure 4.1). These committees were supported by a team of 12 departmental officers as well as legal, probity, financial and technical advisers.

Figure 4.1: Oversight arrangements established by the department



Note: The MBSP Project Sponsor performed concurrent roles as the Chair of the Evaluation Committee and the responsible Senior Executive Officer for the programme.

Source: ANAO analysis of departmental information.

4.3 The Evaluation Committee was responsible for:

- assessing applications;
- merit-listing base stations; and
- preparing the application Evaluation Report, which included the rationale for decision-making and the merit list of proposed base stations for funding.

49 There was close operational engagement between the department and the then Parliamentary Secretary that included regular meetings or teleconferences to discuss the progress of the programme.

4.4 The Steering Committee was responsible for:

- strategic oversight of the Evaluation Committee, including testing the robustness of its work to ensure sound decisions had been made; and
- endorsing the Evaluation Report for the Minister prior to it being provided to the Parliamentary Secretary and Minister.

4.5 The Evaluation Committee presented the draft Evaluation Report to the Steering Committee at its second meeting. The Steering Committee did not formally endorse the report at the meeting, with members providing comments to the Chair of the Evaluation Committee. The department advised the ANAO that Steering Committee members provided some drafting suggestions and indicated verbally to the Chair of the Evaluation Committee that:

it was at the discretion of the Evaluation Committee whether the proposed changes were to be made to the final report provided to the Minister (as decision-maker). Comments received from Steering Committee members did not include any suggestion to alter the Evaluation Committee's findings, including the order of base stations on the Merit List.

4.6 Given the lack of evidence on the extent to which the work of the Evaluation Committee was scrutinised and the lack of a documented endorsement of the final report, the department is not well placed to demonstrate that the Steering Committee's terms of reference were appropriately discharged and that the work of the Evaluation Committee received sufficient scrutiny.

Did the department develop appropriate plans to support programme delivery?

To support programme delivery, the department developed appropriate, high-level plans for implementation, proposal assessment, and project management, with internal guidance established to assist in the process of assessing and selecting base stations. The department did not, however, establish a compliance plan or a plan to measure programme performance.

4.7 Plans and internal guidance documents were developed by the department to assist it to assess and merit-list proposed base stations for funding under the programme, including governance plans—an implementation plan, proposal assessment plan, project management plan, risk management plans and process plans—a communications strategy and a procedures manual. These were generally suitable, although:

- the procedures manual was not finalised⁵⁰;
- plans to measure programme performance were not developed (performance measures are examined later in this Chapter);
- a fit-for-purpose approach to monitor funding recipient compliance with funding agreements was not developed; and
- the methodology for assessing coverage claims and costs of proposals was insufficiently developed (discussed in Chapter 3).

50 The department advised that the procedures manual was redrafted following the Round 1 assessment process to record processes that were followed in preparation for Round 2 of the programme.

Were programme risks adequately managed?

The department established an appropriate framework to identify programme risks, including those relating to probity, with these risks and their treatments monitored on an ad hoc basis. The establishment of a more structured process to review and update risks would provide greater assurance that risks were being appropriately managed.

Identification, monitoring and mitigation of risks

Identifying programme risks

4.8 The department documented the sources of risk to the successful implementation of the MBSP in programme-specific strategic, operational and fraud risk registers. For each identified risk, the proposed additional treatments were described and the timing and responsibilities for their implementation were identified. The development of the registers aligned with the department's risk management framework. The department's internal auditors reviewed the programme risk register in April 2014 and found that it reflected a mature assessment of risks posed by programme implementation and recommended the documentation of additional operational risks such as of fraud and worker injury.⁵¹

4.9 Table 4.1 outlines the areas identified as 'High' risk and associated mitigation measures in the programme's Strategic Risk Register as of March 2015 (prior to assessment of proposals).

4.10 The department reviewed and updated the programme risk registers on an informal and ad hoc basis, primarily by the Programme Director. While this approach provided for the ongoing monitoring of programme risks, a regular, structured risk monitoring approach would provide greater assurance that risks are being monitored appropriately and that any emerging risks to the success of the programme are identified early and managed appropriately.

51 In a follow-up review in September 2014, the department confirmed that an operational risk register had been established that addressed the risk of fraud and of not meeting workplace health and safety obligations during the construction and operation of base stations.

Table 4.1: Strategic risks to the programme identified as ‘High’ risk level and associated mitigation measures

Description of risk	Mitigation measures (Extract from the programme’s strategic risk register)
Community expectations of improved mobile coverage are not met <i>(Identified 23 October 2013)</i>	<ul style="list-style-type: none"> • Publicise nominations of black spot locations; • Convey that not all locations will be funded and that mobile network operators will validate coverage of nominated database locations; and • Encourage: <ul style="list-style-type: none"> – third-party co-contributions and weight assessment process; and – mobile network operators to identify unfunded locations that may be commercially sustainable without Commonwealth subsidy.
Open access arrangements are ineffective and compromise competition <i>(Identified 25 October 2013)</i>	<ul style="list-style-type: none"> • Programme designed to provide incentive to compete for funding. • Consultation with potential applicants.
Funding decisions challenged and/or publicly criticised <i>(Identified 6 December 2013)</i>	<ul style="list-style-type: none"> • Objective assessment according to assessment criteria. • Minister for Communications to review merit list with option to seek further information or make amendments as deemed necessary.
Base stations that are funded deliver a minimal amount of new mobile coverage <i>(Identified 20 March 2014)</i>	<ul style="list-style-type: none"> • Assessment process favours benefits of new coverage. • Apply equitable distribution principles. • Cap maximum funding of base stations at \$500 000. • Minister for Communications retains discretion to approve proposals and decide on value for money.

Source: Department of Communications and the Arts.

Probity risks

4.11 To provide assurance that decision-making was not compromised by a lack of impartiality and that confidentiality was appropriately safeguarded, the department engaged an external probity adviser in October 2014. The adviser assisted the department to establish a systematic and risk-based probity process, which included providing advice, probity briefings and establishing a conflict of interest declaration process. All relevant staff completed conflict of interest declarations and no significant conflicts of interest or disclosures of confidential information were reported. This approach provided additional assurance that decision-making was consistent with probity principles, conducted in accordance with relevant programme plans, as well as with applicable Commonwealth legislation and policy requirements.

Oversight of programme risk management

4.12 The risks to successful programme delivery were also reported to the department's Executive Committee, chaired by the departmental Secretary. Several programme risks were included on the Executive Committee's 2015 Strategic Risk Map, including the risks that:

- funding decisions are successfully challenged—which was to be mitigated through compliance with the proposal assessment plan; and
- the programme does not meet public expectations regarding the extent of improved mobile coverage it delivers—which would be addressed by the department continuing to convey publicly that the programme will not be able to address all mobile black spots in regional Australia.⁵²

4.13 At the time of the release of the programme guidelines, the department considered that the most significant risk was the potential for minimal new mobile coverage to be delivered by a number of the funded base stations—because there was no minimum requirement for new coverage for each proposed base station.⁵³ The department considered that the likelihood and potential consequence of the above risk would not be clear until all funding applications had been received and evaluated. As noted in Table 4.1 the risk of minimal new coverage was expected to be mitigated by a range of existing controls, most notably that the Minister, as the decision-maker, retained the discretion to approve proposals and decide on value for money.

4.14 The department anticipated that the impact of the risk of minimal new coverage would be two-fold:

The programme does not deliver the new coverage policy outcomes/benefits that the Government intended for its \$100 million investment and is criticised as a result.

Instead of delivering new mobile coverage, the programme primarily funds the upgrade of the carriers' services being provided to existing customers.

4.15 As noted in Chapter 3, in its briefing to the Minister, the department did not sufficiently draw attention to the risk of awarding funding to base stations with minimal new coverage by appropriately highlighting the significant number of base stations that demonstrated minimal new coverage. While promoting competition for the provision of services and strengthening the quality of existing coverage, a significant proportion of funding has consolidated rather than expanded coverage.

52 As at June 2015, the Strategic Risk Map indicated the consequences of these two risks were rated 'Major' with a likelihood of 'Likely—will probably occur in most circumstances' which resulted in an overall 'High' risk rating.

53 As outlined in Chapter 2, the department's rationale for not specifying a minimum amount of new coverage was that the programme assessment process inherently favoured the benefits of new coverage. For example, the assessment criteria awarded additional points to base stations according to the number of premises and lengths of major roads to receive new coverage, in addition to the amount of additional raw coverage in square kilometres.

Have sound arrangements been developed to measure programme performance?

The existing programme performance measures do not enable the department to accurately monitor the extent to which programme objectives are being achieved and, as a result, adequately inform stakeholders of the impact and cost effectiveness of the programme.

4.16 The department has not established a monitoring and evaluation framework for the MBSP and has not developed adequate performance measures to assess the performance of the programme. The 2014–15 Portfolio Budget Statements for the then Department of Communications established an output-focused key performance indicator for the programme of 25–30 new or upgraded mobile base stations for the financial year, and 250–300 deployed over the four years to 2017–18. The indicator was based on the funding outcomes achieved by the Western Australian Regional Mobile Communications Project, which funded 113 base stations at a cost to the state government of \$39.2 million. This activity level measure was also outlined in the department’s Corporate Plan.

4.17 The award of funding to the 499 base stations selected in June 2015 almost doubled the department’s performance expectation for the programme that was outlined in the earlier 2014–15 Portfolio Budget Statements. This was largely assisted by state and third party co-contributions of \$92 million and applicant contributions of \$185 million. However, the number of base stations funded is not necessarily an indication of the extent to which the programme is achieving its objectives, particularly in those cases where selected base stations offer minimal new coverage in regional Australia. The number of base stations as the sole performance measure is inadequate to inform the department, government and the public of the impact and cost effectiveness of the programme.

4.18 A 2014 internal audit of the programme found that the output-based performance indicator ‘may compromise the ability to meaningfully evaluate the success of the programme’. The audit recommended the development of key performance indicators based on the selection criteria for the programme. The department agreed to the recommendation, and incorporated the following performance indicators into its draft project management plan⁵⁴:

- the project is completed by 30 June 2018 within the agreed funding allocation;
- the project provides a minimum of 250 new mobile base stations nationally, delivering coverage to more than 10 000 premises and 5000 kilometres of major roads;
- there are agreements in place to ensure that all mobile base stations delivered through the programme are operated and maintained for a minimum of 10 years after construction is complete;
- the programme design promotes competition by facilitating the provision of services by multiple carriers; and
- a significant amount of co-contributions (cash and in-kind) are made available from applicants and third party stakeholders.

54 As at February 2016, the programmes’ Project Management Plan remained in draft form.

4.19 The department's *2014–15 Annual Report* assessed the department's performance against the key performance indicators included in the Portfolio Budget Statements and provided the following selected statistics on anticipated new coverage:

Almost 500 [499] new or upgraded mobile base stations would be built around Australia under the \$100 million Mobile Black Spot Programme. These would provide new handheld coverage to 68,600 km² and new external antenna coverage to over 150,000 km², and over 5,700 km of major transport routes would receive new handheld or external antenna coverage.⁵⁵

Approach to monitoring and assessing programme performance

4.20 As outlined earlier, the department has not established a performance monitoring framework or evaluation strategy for the programme. Without a performance monitoring and evaluation framework in place, it is not clear how data from completed projects will be aggregated by the department to inform an assessment of the extent to which the programme is achieving its objectives. Further, the department has not allocated resources to support monitoring and evaluation activities to measure and evaluate programme performance and, as noted earlier, it has not developed a compliance plan to inform its delivery of activities to determine whether funded proposals are delivered as intended. In January 2016, the department informed the ANAO that it intends to conduct a 'light touch' approach to audit the selected base stations that may leverage off any technical verification activities undertaken by states.

4.21 Notwithstanding the absence of a monitoring or evaluation framework, the department has established in its funding agreements with selected applicants requirements for the provision of specific data, such as the number of 000 calls made from each operational base station.⁵⁶ As noted in Chapter 2, baseline data on the quality and extent of mobile coverage in Australia is based on models of projected coverage that may not accord with user experience on the ground. In the absence of baseline data, the department has signalled its intention to adopt the following approach to assess the performance of the programme:

- programme evaluation—the guidelines noted that funding recipients will be required to participate in programme reviews and evaluations and establish baseline data;
- monitoring of existing network plans—the guidelines noted that the department would monitor and reconcile mobile network operators' current coverage expansion plans with build data to ensure that applicants did not seek funding for Round 2 proposals where they had already planned to invest; and
- a public database—the draft funding deed provided with the guidelines established a requirement for funding recipients to maintain an online database of the location of the base stations funded under the MBSP, status of deployment and anticipated dates of completion.

4.22 The department finalised funding agreements with the two successful applicants in October 2015 and February 2016. The funding agreements contain references to monitoring of

55 Department of Communications, *Annual Report 2014–15*, p. vii.

56 The development of a performance monitoring or evaluation framework during the design of programmes generally assists delivery entities to determine the types of data that will be required from successful applicants and enables these requirements to be included in funding agreements.

existing network plans, the conduct of programme reviews and evaluations, the establishment and maintenance of a public database, the original coverage claim proposed for each base station, and reporting arrangements to the department on the progress of deployment against an agreed schedule. The funding agreements do not, however, contain provisions with respect to verification of actual coverage provided by the base stations. With regard to the components of the assessment of coverage claims conducted by the department, one agreement only included length of major transport route, number of premises covered and new external antenna coverage area, for each base station.

4.23 Adequate performance information, particularly in relation to programme effectiveness, enables entities to assess the impact of policy measures, adjust management approaches as required, and provide advice to government on the success, shortcomings and future directions of programmes. As such, entities should adopt an early focus on performance measurement by developing an evaluation framework during the design phase of the programme. Without reliable, timely and adequate evidence, the department is not well positioned to demonstrate that funding has been expended according to programme requirements and that the programme is achieving its objectives of extending mobile coverage and competition in regional Australia.

Recommendation No.3

4.24 To assess the extent to which the Mobile Black Spot Programme is achieving the objectives set by government, the ANAO recommends that the Department of Communications and the Arts implement a performance measurement and evaluation framework for the programme.

Department of Communications and the Arts' response: *Agreed.*

4.25 The department accepts the ANAO's recommendation and will further develop the programme evaluation documentation to enable the department to reliably measure the overall impact and effectiveness of the programme, as well as the extent to which the programme is meeting its objectives.

Do the funding arrangements appropriately safeguard public funds?

The funding agreements outlined a number of arrangements that provide the department with some capacity to safeguard public funds through claw-back provisions in the event of underspends. These arrangements require further strengthening to reduce the department's heavy reliance on funding recipients' verification of expenditure following rollout completion.

Funding agreements with successful applicants

4.26 The funding agreements establish a multi-year roll out schedule, project documentation requirements, and reporting requirements, including monthly asset completion reports, periodic reconciliation statements and annual operational reports. Various provisions in the agreements govern arrangements for delays in deployment, state co-funded sites, and site variations and replacement sites, if for example, a change in site is required for location-specific development approval.

4.27 The agreements set out payment schedules consisting of:

- initial mobilisation payment for each funding recipient consisting of a percentage of the total Commonwealth funding committed to the recipient to be paid on commencement;
- monthly amounts of specified asset completion payments—which are subject to the provision of asset completion reports; and
- a final payment of remaining committed funds—subject to the completion of the last funded base station.

4.28 As noted in Chapter 3, the department’s acceptance of costs that were ‘higher than expected in some cases’, requires the department to ensure that the ongoing management of the programme appropriately safeguards public funds. This includes the efficient use of funds which is required by the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).⁵⁷

Funding claw-back and pooling

4.29 The draft funding agreement issued with the programme guidelines in December 2014 contained provisions to claw-back Commonwealth funding for selected base stations in the event that actual costs were lower than the estimated costs on which the funding decisions were made (conversely, overspends were to be absorbed by the funding recipient). The department justified the acceptance of higher costs on the assumption that claw-back provisions would safeguard public funds during its management of funding agreements.

4.30 The funding agreements negotiated with successful applicants include claw-back provisions, but also enable funding recipients to pool cost underspends across the deployment. The pooling of underspends by funding recipients between base stations was not envisaged in the programme guidelines and may potentially weaken the ability of the department to apply appropriate costing discipline, to claw-back underspends and to address the cost premium included in applicant proposals.

Funding additional sites from underspends

4.31 Under the agreements, the funding recipients can negotiate with the department to fund additional sites from a cost savings pool rather than return those funds to the Commonwealth.⁵⁸ The ability to fund additional sites with underspend was also not envisioned in the guidelines.

4.32 As was the case for applications under Round 1, additional sites must cover an area on the Database of Reported Locations and not be on the recipients’ three-year forward work plan. However, approval of additional sites will not be subject to a return to the market to determine whether alternative operators can deliver new coverage at additional sites at a lower cost than the funding recipient. Further, additional sites are not required to be subjected to the assessment and selection processes that applied to the sites approved in June 2015, as these sites will be negotiated between the department, the funding recipient and relevant state (if required). As this approach assumes that the next site offered by the funding recipient is the best use of funds,

⁵⁷ PGPA Act, s. 15.

⁵⁸ The agreements provide for the Commonwealth or funding recipient to initiate discussion for the use of any unspent funds to build additional sites after 1 November 2017. Additional sites must be agreed before 1 November 2018.

there would be merit in the department establishing a framework to obtain adequate assurance that value for money will be achieved for any additional sites it approves.

Reconciliation and claw-back arrangements

4.33 The reporting provisions of the funding agreements enable the department to periodically monitor the accumulation of funds in funding pools over the period of deployment. The assurance on the extent to which funding has been allocated for its intended purpose and final status of funding pools is not, however, to be provided until after the completion of the last funded base station in 2018. At the completion of final deployment, the funding recipients are to provide a statement to the Commonwealth setting out the actual cost for each completed base station and repay remaining Commonwealth funding, if any.⁵⁹

4.34 Assurance that the recipient's reconciliation is accurate is to be provided through an audited statement of receipt and expenditure (in compliance with Australian Accounting Standards) and certification by the funding recipient that all funding was spent for the purpose of the rollout and in accordance with the agreement.

4.35 Overall, the inclusion of funding pools and ability of funded operators to propose additional sites (without market testing) under the funding agreements, coupled with end of deployment assurance on expenditure, does not position the department to identify and return in a timely manner any unspent funds to the Commonwealth. Without additional performance monitoring and evaluation measures, the department is highly dependent on the funding recipient's appointed auditor to appropriately verify records of receipt and expenditure.

4.36 The implementation of a performance monitoring and evaluation framework as recommended earlier, would assist the department to determine the extent to which the components of actual expenditure were appropriate and provided for the expansion of mobile coverage and competition without undue cost—and thereby help safeguard the expenditure of public funds.



Grant Hehir
Auditor-General

Canberra ACT
1 September 2016

⁵⁹ The rollout completion date excludes base stations that are additional sites.

Appendices

Appendix 1 Entity response



Australian Government

Department of Communications and the Arts

Dr Heather Smith PSM

Secretary

Ms Michelle Kelly
Group Executive Director
Performance Audit Services Group
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Ms Kelly

Performance Audit: The Award of Funding under the Mobile Black Spot Programme

Thank you for your letter of 13 April 2016 which provided a copy of the ANAO's proposed performance audit report for *The Award of Funding under the Mobile Black Spot Programme*.

I am pleased to note the ANAO's finding that the department established the key elements of a competitive merit-based grants programme, and developed programme guidelines which contain an appropriate range of information to facilitate the submission of funding applications.

The report provides an opportunity to further enhance this programme which is delivering improved mobile coverage and competition to regional and remote parts of Australia.

As requested in your letter, attached is our formal response to the proposed audit report, together with a short summary of the response provided. If you wish to discuss the response please contact Lachlann Paterson, Assistant Secretary Regional Deployment (02 6271 1372, lachlann.paterson@communications.gov.au).

Yours sincerely

A handwritten signature in black ink that reads "Heather Smith".

Heather Smith
10 May 2016

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**Australian National Audit Office Performance Audit:
*The Award of Funding under the Mobile Black Spot Programme***

Department of Communications and the Arts - Agency response

1. The Department of Communications and the Arts (the department) acknowledges the ANAO's analysis and findings as set out in its proposed audit report on *The Awarding of Funding under the Mobile Black Spot Programme* (the programme). The department notes in particular the ANAO's conclusion that the department established the key elements that would be expected to form part of a competitive, merit-based grants programme and, in the main, implemented these elements in accordance with the published guidelines for round 1 of the programme.
2. The department agrees with the three recommendations outlined in the ANAO's proposed report, and notes that Recommendation 1 has already been implemented through the establishment of minimum new coverage requirements in the assessment criteria for mobile telecommunications infrastructure proposed under round 2 of the programme.
3. The department will implement Recommendations 2 and 3 of the proposed report by further enhancing the assessment documentation which has been developed to evaluate the mobile telecommunications infrastructure proposed under round 2 of the programme. The department will also enhance its method of measuring and reporting on the extent to which the programme is meeting its objectives.
4. The department notes the ANAO's observation that the round 1 criteria used to assess the merits of the proposed base stations resulted in some cases on emphasis being placed on consolidating existing coverage, rather than focusing solely on extending coverage in new areas. The department continues to emphasise that in addition to increasing the mobile coverage footprint in regional and remote Australia, the stated objectives of the programme include improving mobile services and competition. All round 1 base stations achieve one or more of the programme objectives.
5. In addition, "extended coverage" also takes into consideration the mobile coverage improvements in areas where existing coverage is poor or patchy, and also provision of new 4G services where this was not previously available. The department maintains that all base stations achieve value for money against the programme's objectives.
6. The department disagrees with the ANAO's assertion that providing funding to expand coverage in areas serviced by other operators necessarily displaces the incentive for other operators to extend services in such locations. The department notes that in many regional and remote locations it is only commercially viable for a single operator to provide services given the high capital costs required to build a mobile base station. The programme, by subsidising this initial capital cost, therefore promotes competition and provides consumers with a choice of service provider in areas where this may not otherwise have occurred.

1

ANAO comment

In relation to the department's comments in point 6 above, as outlined in paragraphs 3.51 and 3.57 of the report, the ANAO has indicated that the provision of public funding for the deployment of base stations in areas of existing coverage **potentially** displaces market driven investment by mobile network operators. The ANAO does not assert that providing funding to expand coverage in areas serviced by other operators **necessarily** displaces the incentive for other operators to extend services in such locations.