

Administration of the Strengthening Basin Communities Program

Department of the Environment

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Canberra ACT
30 January 2014

Dear Mr President
Dear Madam Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of the Environment in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament. The report is titled *Administration of the Strengthening Basin Communities Program*.

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, appearing to read 'Ian McPhee', is positioned above the printed name.

Ian McPhee
Auditor-General

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

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Abbreviations

ANAO	Australian National Audit Office
CGGs	Commonwealth Grant Guidelines
Cities and Towns	National Water Security Plan for Cities and Towns Program
DEWHA	Department of the Environment, Water, Heritage and the Arts (previous name for the Department of the Environment)
DSEWPac	Department of Sustainability, Environment, Water, Population and Communities (previous name for the Department of the Environment)
ERC	Expenditure Review Committee of Cabinet
Environment	Department of the Environment
FMA Act	<i>Financial Management and Accountability Act 1997</i>
Finance	Department of Finance
IWCM	Integrated Water Catchment Management
KPI	Key Performance Indicator
PBS	Portfolio Budget Statements
SBCP	Strengthening Basin Communities Program
SRWUIP	Sustainable Rural Water Use and Infrastructure Program

Summary and Recommendations

Summary

Introduction

The Murray–Darling Basin

1. The Murray–Darling Basin (the Basin) is the catchment for the Murray and Darling rivers and their tributaries. It contains Australia’s three longest rivers—the Darling, the Murray and the Murrumbidgee—as well as nationally and internationally significant environmental assets, such as wetlands, billabongs and floodplains.

2. Through a combination of drought and flood, emerging changes in climate, population growth and the impact of past water allocation decisions, the Basin’s communities, industries and natural environment are under strain.¹ In response, recent Australian Governments have increased their focus on improving water management practices across the Basin. During the period between 2007 and 2012, the *Water Act 2007*² and the *Water Amendment Act 2008* were introduced, and the Murray–Darling Basin Authority³ (MDBA) prepared the Basin Plan to manage the Basin’s water resources in a coordinated and sustainable way in collaboration with the community.⁴

3. In January 2007, the then Prime Minister also introduced the National Plan for Water Security, which provided \$10 billion over a 10-year period to increase agricultural production with less water use while improving environmental outcomes. This commitment to water initiatives has progressively increased, primarily through the Water for the Future Initiative. This initiative incorporated elements of the earlier national plan and provided an additional \$2.9 billion in funding over a 10-year period (2008 to 2018)

1 Murray–Darling Basin Authority (MDBA), *Environmental Changes and Issues in the Basin*, c2013, available from <http://www.mdba.gov.au/about-basin/basin-environment/challenges-issues> [accessed 5 November 2013].

2 The Water Bill 2007 was introduced into Parliament by the then Coalition Government (1996–2007) and implemented a number of elements of that Government’s *National Plan for Water Security*. It came into effect on 3 March 2008 under the subsequent Labor Government (2007–13). References to the Government in this report refer to the Labor Government, unless otherwise stated.

3 Murray–Darling Basin Authority leads the planning and management of Basin water resources in collaboration with partner governments and the community. For further information on the MDBA, see *About MDBA*, 2013, available from <<http://www.mdba.gov.au/about-mdba>> [accessed 14 August 2013].

4 MDBA, *Basin Plan*, available from <<http://www.mdba.gov.au/what-we-do/basin-plan>> [accessed 14 August 2013].

towards a suite of urban and rural policies and programs, including funding for: water purchasing; irrigation modernisation; desalination; recycling; and storm water capture.⁵

4. The Federal Parliament has had an ongoing interest in water management and the initiatives established by government to balance water use and the effect of water restrictions on communities located in the Basin. In 2008, the impact of the then proposed Water Amendment Bill 2008 was examined by the Standing Committee on Rural and Regional Affairs and Transport. The committee's report supported the Bill, stating that it would enable water resources in the Murray–Darling Basin to be managed in the national interest, optimising environmental, economic and social outcomes.⁶ A minority report from this inquiry, by the Australian Greens and endorsed by the Independent Senator for South Australia, Senator Nicholas Xenophon, recommended that community planning be made a priority, with incentives and support provided to communities to assist them in creating plans that integrate infrastructure investment, water sales and structural adjustment.⁷

5. Senator Xenophon subsequently promoted the importance of government support for communities in the Murray–Darling Basin and negotiated an agreement with the then Government for additional funding in return for his support for its stimulus measure—the Nation Building and Jobs Plan—in early 2009. As a part of this agreement, the Government committed to provide \$200 million in funding for a program initially titled *Local Plans for a Future with Less Water*.⁸

6. The Department of the Environment⁹ (Environment) commenced work on implementing the \$200 million program, now titled the Strengthening Basin Communities Program (SBCP), to assist communities to plan for a future with

5 Department of the Environment, *Water for the Future Fact Sheet*, 2010, available from <<http://www.environment.gov.au/water/publications/action/pubs/water-for-the-future.pdf>> [accessed 31 August 2013].

6 Standing Committee on Rural and Regional Affairs and Transport, *Water Amendment Bill 2008*, available from <http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Rural_and_Regional_Affairs_and_Transport/Completed%20inquiries/2008-10/water_amendment/report/index> [accessed 11 June 2013], p. 16.

7 *ibid.*, p. 42.

8 On 13 February 2009, the Bill supporting the Nation Building and Jobs Plan passed into law with the support of Senator Xenophon.

9 In September 2013, the Department of Sustainability, Environment, Water, Population and Communities (DSEWPaC) became the Department of the Environment as a part of changed administrative arrangements.

less water, and develop water saving initiatives to support these plans. The SBCP is part of the \$5.8 billion Sustainable Rural Water Use and Infrastructure Program (SRWUIP), which is the largest component of the Water for the Future Initiative.

Strengthening Basin Communities Program

7. The SBCP consists of two separate components: the Planning Component and the Water Saving Initiatives Component. The Planning Component had an initial allocation of \$20 million. It was designed to provide grants for local government authorities in the Basin to assess the risks and implications associated with climate change with a focus on water availability, and to either review existing plans or develop new plans to take account of these risks and implications. The Water Saving Initiatives Component, which was allocated the remaining \$180 million, was designed to support projects to improve urban water security through water saving initiatives that reduce demand on potable¹⁰ supplies in the Basin by:

- reducing water loss in distribution systems;
- reducing potable water use; and/or
- providing ‘fit for purpose’ water that can replace potable water.¹¹

The Water Saving Initiatives Component was accessible to local government authorities and water utilities in the Basin.

Administrative arrangements

8. The SBCP is administered by Environment, a role which has included engaging with stakeholders and potential applicants, designing and implementing a grant assessment and selection process, and managing subsequent funding agreements. The department has conducted two separate funding rounds under each component, with separate program guidelines prepared for each component and each funding round.

10 Potable water is water that is safe for human consumption and domestic purposes.

11 Department of the Environment, *Water Saving Initiatives Component Round 2, Implementation and Funding Guidelines*, July 2010, p. 5.

9. All applications were assessed for eligibility by departmental officers. The assessment of applications against the merit and prioritisation criteria¹² was also undertaken by departmental officers, with external technical assistance obtained for the Water Saving Initiatives Component. During Round 1 (both components), the Minister for Climate Change and Water held decision-making responsibilities for the SBCP. On 14 September 2010, the Minister for Sustainability, Environment, Water, Population and Communities assumed the role of decision-maker. This period covered the approval of grant recipients for Round 2 of both program components.

Funding allocations

10. The department received 133 applications across both components and rounds of the SBCP. Of these, 99 applications were recommended to the relevant Minister for funding. The recommended applications involved 109 local government authorities (including where part of a consortium) and two water utilities.¹³ The Ministers approved 75 projects and gave in-principle approval to an additional 24 projects, to a total of \$81.7 million (\$19.3 million under the Planning Component and \$62.4 million under the Water Saving Initiatives Component). However, five applicants did not enter into funding agreements with the Commonwealth. As at October 2013, 94 funding agreements to the value of \$71.2 million had been signed (\$19.3 million under the Planning Component and \$51.9 million under the Water Saving Initiatives Component). Table S.1 (on the following page) provides a summary of the number of applications, funding offers and the status of projects.

11. Under the Planning Component, funding was provided for a range of activities including: plans to secure alternative water supplies for recreation reserves and other community green spaces; studies into the impact of climate change on the socio-economic security of an area; a platypus awareness and conservation plan; and groundwater modelling. These grants ranged from \$18 570 to \$800 000, with the median being \$200 000. Projects funded under the Water Saving Initiatives Component included: water and/or effluent recycling and reuse plants; pipeline replacement; and stormwater harvesting projects.

12 Eligible Planning Component projects were assessed for merit against prioritisation criteria. Eligible Water Saving Initiatives Component projects were assessed against merit criteria.

13 Sixty-five local government authorities or water utilities received one grant, while 37 local government authorities received two grants and nine received three grants.

These grants ranged from \$24 500 to \$9 270 000, with the median being \$891 000.

Table S.1: Grant summary information (as at October 2013)

	Planning Component Round 1	Planning Component Round 2	Water Saving Initiatives Component Round 1	Water Saving Initiatives Component Round 2	Total
Grant Applications	39	35	22	37	133
Funding Offers	37	26	12	24	99
Offer Declined	0	1	0	4	5
Projects In Progress	0	0	2	16	18
Projects Completed	35	24	10	3	72
Projects Terminated	2	1	0	1	4

Source: Departmental information.

12. In August 2012, the Government decided to transfer \$100 million from the SBCP to the then Department of Regional Australia, Local Government, Arts and Sport to fund the Murray–Darling Basin Regional Economic Diversification Program. The allocation of the remaining funding is yet to be determined.

Audit objective and criteria

13. The objective of the audit was to assess the effectiveness of the Department of the Environment's administration of the Strengthening Basin Communities Program.

Criteria

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

- the program design reflected the policy intention;
- sound administration arrangements were put in place to support its implementation;
- the assessment and selection process was sound and provided Ministers with sufficient information to support their decisions;

- funding agreements were effectively negotiated and managed; and
- progress against the program's objectives was monitored and reported.

Overall conclusion

15. The Australian Government initially allocated \$200 million in funding under the Strengthening Basin Communities Program (SBCP) to assist communities in the Murray–Darling Basin to assess the risks and implications associated with climate change and to identify local water efficiency measures that would meet the needs of communities now and into the future. The program was delivered across two components and two funding rounds, with 99 projects valued at \$81.7 million approved for funding.¹⁴ As at October 2013, five applicants had not accepted the funding offer, 72 projects had been completed, four had been terminated and 18 were ongoing.

16. Program funding has been allocated to a broad range of projects across the Basin to assist communities to plan for a future with less water and to develop water savings initiatives. Despite the delivery of SBCP projects being adversely affected by extreme weather events, including drought conditions and severe flooding, all completed projects have reported positive results. Projects have resulted in the creation of planning documents, including socio-economic modelling of how communities will be affected by a future with less water, and the construction of water saving infrastructure, such as grey water and stormwater re-use systems.

17. The department has worked in a collaborative and flexible manner to assist grant recipients to achieve the intended outcomes of their projects. However, there were significant shortcomings in some key aspects of program implementation that detracted from the effectiveness of the department's administration. These included the design of the program guidelines, the subsequent assessment of grant applications, and the management of funding agreements.

18. The program guidelines published by the department provided applicants with a broad range of information. However, for each of the four sets of guidelines created (one for each component and round) information

14 This figure includes 24 projects that were recommended to the Minister for in-principle approval, pending the provision of additional information by the applicant. The Minister also approved the department's recommendation that it make the final funding decision once the additional information had been assessed.

regarding program eligibility requirements was dispersed throughout the document. As a consequence, it was difficult for applicants and the department to easily determine whether eligibility requirements had been met. In total, 13 projects progressed to merit assessment¹⁵ despite not strictly meeting eligibility requirements, mostly in relation to applicant contributions. While the merit scores for six of these projects were not sufficient for them to be recommended for funding, the remaining seven were given in-principle funding approval, with six projects receiving funding.¹⁶ In addition, Environment departed from the assessment processes outlined in the program guidelines and did not fully document the basis of its decisions. As a result, the transparency, accountability and, ultimately, the equity of the assessment and selection process was adversely affected.

19. In relation to the management of funding agreements, Environment did not establish a sound and consistent process to manage the scope of funded projects. As a result, activities were funded that had not been merit assessed, and, on the other hand, activities that had been included in the assessment that determined the merit of the proposed projects were removed.¹⁷ Also, the opportunity to amend approved projects was not offered to all applicants, which again raises questions regarding the equity of the assessment and selection process. There were also shortcomings in the management of reporting obligations and the acquittal of grant funding. In particular, the department did not reconcile: recipient contributions to projects against the commitments included in funding agreements; and financial information included in the final report assessment against the audited financial statements to gain assurance over project expenditure. These shortcomings detracted from

15 The criteria used to assess the merit of eligible projects under the Planning Component were termed 'prioritisation criteria', whereas the criteria used under the Water Saving Initiatives Component were termed 'merit criteria'.

16 According to the program guidelines for Water Saving Initiatives Component Round 2, applicants were required to contribute a minimum of 50 per cent of the total project value in cash. The ANAO found that the applications for seven projects indicated that their contribution to the project's total value would be through a mix of cash, third party contributions and in-kind support. These projects received an in-principle recommendation for funding. Funding agreements were signed with six of these applicants (the remaining project was withdrawn by the applicant). During the negotiation of funding agreements for the approved projects, the department modified project budgets to ensure that the Commonwealth provided a maximum of 50 per cent of project costs. In two cases, the department waived the eligibility requirement for grant recipients to contribute 50 per cent of the project value in cash, accepting in-kind contributions as an alternative.

17 For example, decisions were taken to increase or decrease the geographic reach of some projects, such as including or removing towns or local government authorities from the project's scope.

the department's approach to monitoring program expenditure¹⁸ and applicant contributions to funded projects.

20. There would also be merit in Environment reviewing its approach to the reporting of SBCP performance. The department reported the achievements of the SBCP in a consolidated form with other departmental water programs. In some years it identified those projects that had contributed to this consolidated data and in others it did not. The individual contribution of each program to the consolidated figures was not, however, included. Further, the department did not disclose that the water savings data reported for the SBCP were based on estimates, including from projects that had yet to be completed, rather than actual program achievements.¹⁹ As such, stakeholders, including the Parliament, have limited visibility regarding program performance and the extent to which the Government's objectives have been achieved.

21. While Environment has made a number of improvements to the administration of the SBCP over the life of the program, there remains scope to strengthen the department's grants administration practices. The ANAO has made three recommendations designed to: improve the transparency and accountability of grant assessment and selection processes; strengthen the management of funding agreements; and more accurately report program performance.

Key findings by chapter

Program design and establishment (Chapter 2)

22. The SBCP was designed to reflect the policy parameters established by the Government. Its implementation was guided by the early development of sound supporting documentation, including project, risk management and stakeholder engagement plans.

23. In accordance with the grants administration framework, the department published approved program guidelines for each component and round of the SBCP. The development of the guidelines was informed by

18 The ANAO identified two cases where the department was unaware that it had overpaid grant recipients to a value of \$56 000. In response to the ANAO's finding, the department has subsequently sought to recover these overpayments.

19 The department did not require that grant recipients measure actual outcomes from SBCP projects.

consultation with internal and external stakeholders, including with departmental officers from similar programs²⁰, relevant government agencies and the Minister, and outlined the key elements of the program.

24. While the program guidelines generally provided potential applicants with a broad range of information, there was scope for the department to have provided clearer and/or additional information regarding eligibility requirements. The program guidelines for all SBCP components and rounds included sections titled 'eligibility', 'applicant eligibility' or 'project eligibility' within which eligibility requirements were outlined. However, the various guidelines included additional eligibility requirements or provided further information that modified the requirements in these sections.²¹

25. Further, the department established a threshold score for each criterion, which required applicants to achieve a score of three or more out of a possible five, to be recommended for funding. The use of thresholds was not foreshadowed in the published guidelines. Twenty-seven projects that the department had assessed as being eligible did not receive funding because they did not meet these threshold requirements. If this information was included in the program guidelines, applicants that were not competitive across all criteria may have decided against investing resources in preparing an application.

26. The guidance material prepared by the department to inform the SBCP assessment and selection process included a program evaluation or assessment plan for each component and round. While the development of these plans provided a sound basis to guide the assessment process, there was a lack of consistency between the plans and the published program guidelines. As a consequence, the clarity of the process was adversely affected. In a number of cases where there was a conflict, departmental officers adopted the process outlined in the published guidelines to maintain transparency. However, in other cases, the process outlined in the evaluation or assessment plan was

20 These officers suggested that applicants under the Water Saving Initiatives Component be required to provide at least 50 per cent of the total project cost to increase grant recipient engagement with each project and to encourage communities to select projects that were likely to provide optimal returns. This requirement was adopted for both funding rounds.

21 For example, to be eligible under Water Saving Initiatives Component Round 2, the Guidelines stated that projects must have total costs of at least \$500 000. This established the eligibility criterion. Under the heading 'range and period of funding', this criterion was modified to read: The minimum value of any project will be \$500 000 with the minimum Australian Government contribution of \$250 000 (GST exclusive). Applicants are required to contribute a minimum of 50 per cent of the total project cost in cash.

adopted, which was inconsistent with information provided to potential applicants, such as the use of threshold scores.

27. The department was aware of its responsibility to appropriately manage probity issues, including the management of conflicts of interest. A probity plan was prepared and departmental officers and technical advisors were required to declare conflicts, potential conflicts or apparent conflicts of interest.²² However, the department took a narrow view of what might be considered a conflict, and did not explore the breadth of possible relationships between advisors and applicants. The resulting conflict of interest statements—which focused on a single round and component of the SBCP—did not specifically require technical advisors to declare any involvement in applicants' previous SBCP applications, projects or other commercial relationships. In the event, two of the three contracted advisors engaged to assist with Round 2 of the Water Saving Initiatives Component were involved in applicant projects from previous SBCP components or rounds.²³

Governance arrangements (Chapter 3)

28. The oversight arrangements for the SBCP provided a sound basis to guide the implementation of the program. The department identified and managed the risks to the achievement of the program's objectives at a program and project level, with the risk profile being reviewed on a regular basis. While this approach was appropriate, there was scope for the department to provide additional guidance to program staff assessing project risks. This would have reduced the inconsistency between assessments and enhanced their reliability over time.

29. The performance information for the SBCP has not been separately identified in Environment's Portfolio Budget Statements (PBS) and annual reports.²⁴ While the department identified the programs that contributed to the consolidated performance data in some years, it did not in others, and it did not provide information on the contribution of each program to the consolidated data. Further, the annual reports did not clearly state that the

22 Environment's conflict of interest declarations referred to conflict, potential conflict or apparent conflicts of interest. The term 'potential' conflict of interest is also used to define a declared conflict that is yet to be assessed.

23 Three technical assessments were undertaken by advisors that had a prior commercial relationship with the applicant—or a consortium of which the applicant was a part—through previous SBCP rounds.

24 SBCP performance information has been consolidated with information from other water programs and included in Environment's annual reports between 2009–10 and 2011–12.

water savings data for the SBCP was based on estimates, and in some cases, for projects that had not been completed, rather than actual outcomes from completed projects.

30. The measures against which program performance has been reported have also changed over time and, as a consequence, it has been difficult for stakeholders to assess the achievements of the program over its life. The department has committed to provide 'quantitative and qualitative evidence of additional urban water' delivered as an outcome of the SBCP and other similar water programs in 2015.²⁵ However, the limited performance data collected to date, and the termination of contractual relationships with SBCP funding recipients following the completion of their projects, will make it challenging to collect the relevant data needed to support an evaluation of the achievements of the program.

Grant assessment and selection (Chapter 4)

31. The SBCP program guidelines outlined the criteria to be used to assess eligibility for program funding. The eligibility criteria differed between each component, and were modified between each round. These changes coupled with the dispersal of eligibility requirements throughout the program guidelines, as outlined earlier, made it more difficult for applicants and the department to easily determine eligibility. As a consequence, 13 projects progressed to the merit assessment stage despite not strictly meeting all eligibility requirements, with six projects receiving funding.²⁶

32. The department created and retained a broad range of documentation to evidence the assessment and selection process, with the level of documentation increasing in later rounds primarily through the use of improved templates.²⁷ Nevertheless, some aspects of the assessment were not

25 DSEWPac, *Portfolio Budget Statements 2011–12*, available from <<http://www.environment.gov.au/about/publications/budget/2011/pubs/pbs-2011-12.pdf>>, [accessed 19 August 2013], p. 62.

26 As noted earlier, during the negotiation of funding agreements for the approved projects, the department modified project budgets to ensure that the Commonwealth provided a maximum of 50 per cent of project costs. In two cases, the department waived the eligibility requirement for grant recipients to contribute 50 per cent of the project value in cash, accepting in-kind contributions as an alternative.

27 An example of improvements across the two rounds was in the design, completion and retention of assessment sheets. In the first round of the Planning Component, the eligibility assessment did not review project eligibility (as required), only applicant eligibility, and approximately 30 per cent of assessments did not contain a signature or name of the assessor. These issues were addressed in Round 2. Similarly, eligibility assessment sheets for Round 1 of Water Saving Initiatives Component were not retained, but were retained for Round 2.

sufficiently documented to support an accountable and transparent process. In particular, documentation evidencing the moderation of individual assessments to produce a final recommendation was not retained for either component or round.

33. The department's recommendation to the relevant decision-maker included appropriate information on the requirements of the financial management framework and an overview of the assessment and selection process. The Minister approved all recommended applications for both Planning Component rounds and the Water Saving Initiatives Component Round 1 without change. In contrast to earlier rounds, the department's recommendation to the Minister that Water Saving Initiatives Component Round 2 applications be approved on an in-principle basis, pending the provision of additional information by applicants, was unusual.²⁸

34. The department adopted this approach on the basis that the applications provided information required to address the merit criteria, but did not sufficiently describe the proposed projects. The Minister approved the department's recommendation that it approve the offers of grant funding once the required information was provided and assessed. While it is prudent for agencies administering grant programs to obtain all necessary information to support an informed decision on the allocation of funding, the information is generally obtained through the application process or sought during the assessment process. The fact that additional information was required from all recommended Round 2 applicants would indicate that there was scope for greater clarity of information requested as a part of the application process.

35. The department notified all applicants of the success of their applications. In some cases, the department offered partial funding or altered the scope of the proposed project as part of the assessment process. The program guidelines did not, however, outline to potential applicants that the department may reduce funding and/or alter the scope of proposed projects. While the changes were broadly outlined in the department's letter of offer,

28 Additional information requested by the department included: risk management plans, finalised detailed design and budget documentation, relevant planning or environmental approvals and information regarding ongoing operating and maintenance costs of the project's infrastructure over the next 20 years.

greater detail regarding the implications for the project budget and scope would have reduced the potential for misinterpretation or confusion.²⁹

Negotiation and management of funding agreements (Chapter 5)

36. The department offered funding agreements to the 99 approved grant applicants, with 94 entering into agreements with the Commonwealth. The majority of endorsed funding agreements reflected the relevant details of each application and subsequent departmental amendments determined during the assessment process.³⁰

37. Agreement variations were used extensively by the department to account for changes in the delivery environment that resulted in the delayed implementation of a number of projects. In particular, the department used variations to extend project timeframes to reflect the impact of extreme climatic conditions that occurred during the program's implementation period. While the department's use of variations was generally appropriate, in some cases variations resulted in the use of SBCEP funding for project activities that: did not meet the eligibility requirements as outlined in the program guidelines, such as using Planning Component funding for signage and educational materials; or had not been competitively assessed against the merit or prioritisation criteria outlined in the program guidelines to ensure that it represented an appropriate use of Commonwealth funding. Further, in a number of cases, Environment did not retain fit-for-purpose documentation, such as an exchange of letters, which provided both parties with a clear understanding of changed requirements.

38. The department established a monitoring program to gain assurance that recipients were complying with the obligations established under their funding agreement. This included recipients providing progress reports and audited financial statements, and visits to selected project sites by

29 An example of this occurring was during the eligibility assessment of one application, where the department determined that one element of the proposed project was ineligible for funding, while the remaining element was eligible. The broad nature of the department's advice to the applicant regarding the approval of aspects of the proposed program did not outline the implications of partial funding on the applicant's obligation to contribute cash funding. The applicant incurred costs to progress its project based on the initial departmental advice, but when advised of the specific requirements for cash funding withdrew the application.

30 In some cases agreements included terms and conditions that were outside the requirements outlined in the published program guidelines, including the: use of staged activation of some agreements; extension of project timeframes beyond the published limits; and establishing a new requirement for annual audited financial statements in Round 1 projects.

departmental officers. Grant recipients held mixed views regarding the appropriateness of the monitoring program, with some considering the reporting requirements to be cumbersome and excessive, while others considered the reporting proportionate to the level of funding being provided. The work of departmental officers in supporting grant recipients throughout the program was consistently recognised by recipients.

39. There was, however, scope for the department to strengthen aspects of its management of funding agreements, particularly in relation to the integrity of payments and the acquittal of in-kind contributions from grant recipients. While the department sought audited financial statements for each project and prepared an assessment of each project's final report, there were inconsistencies in the financial information included in these documents. This made it difficult to reconcile payments. The ANAO identified two cases where the department was unaware that it had overpaid grant recipients, to the value of \$56 000. The department has subsequently sought to recover these overpayments. In addition, the department did not establish sound processes to acquit grant recipient contributions to projects, both cash and in-kind for Planning Component projects and in-kind for Water Saving Initiatives Component projects. As the provision of in-kind contributions was included as an obligation in the funding agreements, it is important for Environment to manage funding recipient's compliance with this obligation.

Summary of agency response

40. Environment's summary response to the proposed report is provided below, with the department's full response at Appendix 1:

The Department of the Environment is grateful for the opportunity to respond to the audit report and agrees with audit Recommendation Nos. 1, 2 and 3. The Department notes that the audit has highlighted some areas for future improvement in the grants administration process and these recommendations will be incorporated into the administration of current and future grants programs.

Recommendations

Recommendation No. 1
Paragraph 3.35 To improve the measurement and reporting of program performance, the ANAO recommends that the Department of the Environment:

- reinforces the importance of developing appropriate key performance indicators to measure program achievements; and
- provides sufficient explanatory information in performance reports to enable internal and external stakeholders to accurately assess program performance.

Environment's response: *Agreed*

Recommendation No. 2
Paragraph 4.72 Consistent with the transparency and public accountability principles of grants administration, the ANAO recommends that the Department of the Environment reinforces the importance of:

- establishing and applying clear eligibility requirements in program guidelines; and
- appropriately documenting decisions relating to the assessment and selection of applications.

Environment's response: *Agreed*

Recommendation No. 3
Paragraph 5.55 To improve the management of future grant funding agreements, the ANAO recommends that the Department of the Environment:

- retains documentation to support variations to the agreements; and
- strengthens arrangements governing the acquittal of contributions and funding.

Environment's response: *Agreed*

Audit Findings

1. Background and Context

This chapter provides background information on the Murray–Darling Basin and an overview of the Strengthening Basin Communities Program. It also outlines the audit objective, criteria, scope and methodology.

The Murray–Darling Basin

1.1 The Murray–Darling Basin (the Basin) is the catchment for the Murray and Darling rivers and their tributaries. It contains Australia’s three longest rivers—the Darling, the Murray and the Murrumbidgee—as well as nationally and internationally significant environmental assets, such as wetlands, billabongs and floodplains. Extending from north of Roma in Queensland to Goolwa in South Australia, the Basin includes three-quarters of New South Wales and half of Victoria. In total there are 23 river valleys in the Basin, covering over one million square kilometres, or 14 per cent of Australia.³¹ Water from the Basin directly supports three million Australians³², and an agricultural industry worth more than \$9 billion per year.³³ Irrigated agriculture accounts for over 80 per cent of the Basin’s consumptive water use.³⁴

1.2 Through a combination of drought and flood, emerging changes in climate, population growth and the impact of past water allocation decisions, the Basin’s communities, industries and natural environment are under strain.³⁵ In response, recent Australian Governments have increased their focus on improving water management practices across the Basin. During the period

31 Murray–Darling Basin Authority, *About the Basin*, 2008, available from <<http://www.mdba.gov.au/explore-the-basin/about-the-basin>> [accessed on 15 February 2013].

32 MDBA, *Managing the Murray–Darling Basin*, 2012, available from <http://www.mdba.gov.au/basin_plan/concept-statement/managing-the-basin> [accessed on 15 February 2013].

33 Department of the Environment, *Murray–Darling Basin website*, 2011, available from <<http://www.environment.gov.au/water/locations/Murray–Darling-basin/index.html>> [accessed on 4 September 2013].

34 Australian Bureau of Agricultural and Resource Economics–Bureau of Rural Sciences, *Assessing the regional impact of the Murray–Darling Basin Plan and the Australian Government’s Water for the Future initiative in the Murray–Darling Basin*, 2010, available from <http://www.daff.gov.au/_data/assets/pdf_file/0011/1812971/regional-impact-mdba-2010.pdf> [accessed on 4 September 2013].

35 MDBA, *Environmental Changes and Issues in the Basin*, 2013, available from <http://www.mdba.gov.au/about-basin/basin-environment/challenges-issues> [accessed 5 November 2013].

between 2007 and 2012, the *Water Act 2007*³⁶ and the *Water Amendment Act 2008* were introduced and the Murray–Darling Basin Authority (MDBA) prepared the Basin Plan to manage the Basin’s water resources in a coordinated and sustainable way in collaboration with the community.³⁷

1.3 In January 2007, the then Prime Minister, the Hon John Howard MP, introduced the National Plan for Water Security. This plan provided \$10 billion over a 10-year period to increase agricultural production with less water use while improving environmental outcomes. This commitment to water initiatives has progressively increased, primarily through the Water for the Future Initiative. This initiative incorporated elements of the earlier national plan and provided an additional \$2.9 billion in funding over a 10-year period (2008 to 2018) towards a suite of urban and rural policies and programs, including funding for: water purchasing; irrigation modernisation; desalination; recycling; and storm water capture.³⁸

1.4 A major element of improved water management practice involves the limiting of water use at environmentally sustainable levels by determining long-term average sustainable diversion limits for both surface water and groundwater resources. These limits are designed to better balance the needs of communities, farming and the environment. The Basin Plan sets new long-term average sustainable diversion limits, which are scheduled to commence in 2019.

1.5 The Federal Parliament has had an ongoing interest in water management and the initiatives established by the Government to balance water use and the effect of water restrictions on communities located in the Basin. In 2008, the impact of the then proposed Water Amendment Bill 2008 was examined by the Standing Committee on Rural and Regional Affairs and Transport. The committee’s report supported the Bill, stating that it would

36 The Water Bill 2007 was introduced into Parliament by the then Coalition Government (1996–2007) and gave effect to a number of elements of that Government’s National Plan for Water Security. It came into effect on 3 March 2008 under the subsequent Labor Government (2007–13). The Labor Government was in power during the design of SBCP and the majority of its implementation. Any further references to the Government in this report refer to the Labor Government, unless otherwise stated.

37 After a development period of some four years, that included the release of a Draft Basin Plan in November 2011, the Basin Plan was adopted into law by the Australian Parliament on 22 November 2012. The Basin Plan provides a high-level framework that sets standards for the Commonwealth, Basin states and the MDBA to manage the Basin’s water resources.

38 Department of the Environment, *Water for the Future Fact Sheet*, 2010, available from <<http://www.environment.gov.au/water/publications/action/pubs/water-for-the-future.pdf>> [accessed 31 August 2013].

enable water resources in the Murray–Darling Basin to be managed in the national interest, optimising environmental, economic and social outcomes.³⁹ A minority report from this inquiry, by the Australian Greens and endorsed by the Independent Senator for South Australia, Senator Nicholas Xenophon, recommended that community planning be made a priority, with incentives and support provided to communities to assist them in creating plans that integrate infrastructure investment, water sales and structural adjustment.⁴⁰

1.6 Senator Xenophon subsequently promoted the importance of government support for communities in the Murray–Darling Basin and negotiated an agreement with the then Government for additional funding in return for his support for its stimulus measure—the Nation Building and Jobs Plan—in early 2009. As a part of this agreement, the Government committed to provide \$200 million in funding for a program initially titled *Local Plans for a Future with Less Water*. This program was to provide:

\$200 million from *Water for the Future* in grants for Local Municipalities in the Murray–Darling Basin—to assist them in planning for a future with less water, and associated local water saving initiatives.

1.7 The Department of the Environment⁴¹ (Environment) commenced work on implementing the \$200 million program, now titled the Strengthening Basin Communities Program (SBCP), to assist communities to plan for a future with less water, and develop water saving initiatives to support these plans. The SBCP is part of the \$5.8 billion Sustainable Rural Water Use and Infrastructure Program, which is the largest component of the Water for the Future Initiative.

39 Standing Committee on Rural and Regional Affairs and Transport, *Water Amendment Bill 2008*, available from <http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Rural_and_Regional_Affairs_and_Transport/Completed%20inquiries/2008-10/water_amendment/report/index> [accessed 11 June 2013], p. 16.

40 *ibid.*, p. 42.

41 In September 2013, the Department of Sustainability, Environment, Water, Population and Communities (DSEWPaC) became the Department of the Environment as a part of changed administrative arrangements.

Strengthening Basin Communities Program

1.8 The objective of the SBCP is to:

Assist local government bodies in the Murray–Darling Basin to better plan for climate change and identify local water efficiency measures that meet the needs of communities now and into the future.

1.9 The SBCP was implemented through two separate components: the Planning Component and the Water Saving Initiatives Component. The Planning Component had an initial allocation of \$20 million and the Water Saving Initiatives Component was allocated the remaining \$180 million.

Program components

Planning Component

1.10 The Planning Component provided grants for local government authorities in the Basin to assess the risks and implications associated with climate change, with a focus on water availability, and to either review existing plans or develop new plans to take account of these risks and implications. The objective of the Planning Component was to:

Support local governments prepare or update plans and business cases for adaptation initiatives, for example, water savings measures which may be eligible for funding under the Water Saving Initiatives Component of the SBCP.⁴²

Water Saving Initiatives Component

1.11 The Water Saving Initiatives Component was designed to support projects to improve urban water security through water saving initiatives that reduce demand on potable⁴³ supplies in the Basin by:

- reducing water loss in distribution systems;
- reducing potable water use; and/or
- providing ‘fit for purpose’ water that can replace potable water.⁴⁴

42 Department of the Environment, *Planning Component Round 2, Implementation and Funding Guidelines*, April 2010, p. 4.

43 Potable water is water that is safe for human consumption and domestic purposes.

44 Department of the Environment, *Water Saving Initiatives Component Round 2, Implementation and Funding Guidelines*, July 2010, p. 5.

The Water Saving Initiatives Component was accessible to local government authorities and water utilities in the Basin.

Administrative arrangements

1.12 The SBCP is administered by Environment, a role that involves engaging with stakeholders and potential applicants, designing and implementing a grant assessment and selection process, and managing subsequent funding agreements. The department has conducted two separate funding rounds for each component, with separate program guidelines prepared for each component and each funding round.

1.13 The application period for the Water Saving Initiatives Component was initially planned to open after the Planning Component to allow local government authorities to capitalise on the outcomes of planning activities to inform the development of water saving initiatives projects. However, the Water Saving Initiatives Component Round 1 application period commenced before the announcement of successful Planning Component Round 1 grant applications due to a delay in finalising the assessment process. In some cases, Planning Component Round 1 projects had not been completed before the application period for Water Saving Initiatives Component Round 2 had closed. As a consequence, there was limited opportunity for applicants to use the outcomes of their funded planning projects to inform the development of water savings projects. Table 1.1 (on the following page) provides a timeline for the SBCP funding rounds.

1.14 The department received 39 applications for Planning Component Round 1, and 35 for Planning Component Round 2. Twenty-two applications were received for Water Saving Initiatives Round 1 and 37 for Round 2. All applications were to be assessed for eligibility by departmental officers. The assessment against merit and prioritisation criteria⁴⁵ was also undertaken by departmental officers, with external technical assistance obtained for the Water Saving Initiatives Component. During Round 1 (both components), the Minister for Climate Change and Water held decision-making responsibilities for the SBCP. On 14 September 2010, the Minister for Sustainability, Environment, Water, Population and Communities assumed the role of

45 Eligible Planning Component projects were assessed for merit against prioritisation criteria. Eligible Water Saving Initiatives Component projects were assessed against merit criteria.

decision-maker. This period covered the approval of grant recipients for Round 2 of both program components.

Table 1.1: Program timeline

Milestone	Date
SBCP launched	26 June 2009
Planning Component Round 1 applications opened	26 June 2009
Planning Component Round 1 applications closed	21 August 2009
Water Saving Initiatives Component Round 1 applications opened	2 September 2009
Water Saving Initiatives Component Round 1 applications closed	6 November 2009
Planning Component Round 1 announcement of grant offers	27 November 2009
Planning Component Round 1 projects due for completion	within 24 months of approval
Water Saving Initiatives Component Round 1 announcement of grant offers	1 March 2010
Planning Component Round 2 applications opened	14 April 2010
Planning Component Round 2 applications closed	11 June 2010
Water Saving Initiatives Component Round 2 applications opened	20 July 2010
Water Saving Initiatives Component Round 2 applications closed	30 September 2010 ⁽¹⁾
Planning Component Round 2 announcement of grant offers	10 November 2010
Water Saving Initiatives Component Round 2 announcement of grant offers	24 February 2011
Planning Component Round 2 projects due for completion	30 June 2012
Water Saving Initiatives Component Round 1 projects due for completion	30 June 2012
Water Saving Initiatives Component Round 2 projects due for completion	30 June 2013

Source: Departmental information.

Note 1: The closing date for applications was extended from 17 September 2010 to 30 September 2010 due to floods affecting potential applicants.

Funding allocations

1.15 The department received 133 applications across both components and rounds of the SBCP. Of these, 99 applications were recommended to the relevant Minister for funding. The recommended applications involved 109 local government authorities (including where part of a consortium) and

two water utilities.⁴⁶ The Ministers approved 75 projects and gave in-principle approval to an additional 24 projects, to a total of \$81.7 million (\$19.3 million under the Planning Component and \$62.4 million under the Water Saving Initiatives Component). However, five applicants did not enter into funding agreements with the Commonwealth. As at October 2013, 94 funding agreements to the value of \$71.2 million had been signed (\$19.3 million under the Planning Component and \$51.9 million under the Water Saving Initiatives Component). Table 1.2 provides a summary of the number of applications, funding offers and the status of projects.

Table 1.2: Grant summary (as at October 2013)

	Planning Component Round 1	Planning Component Round 2	Water Saving Initiatives Component Round 1	Water Saving Initiatives Component Round 2	Total
Grant Applications	39	35	22	37	133
Funding Offers	37	26	12	24	99
Offer Declined	0	1	0	4	5
Projects In Progress	0	0	2	16	18
Projects Completed	35	24	10	3	72
Projects Terminated	2	1	0	1	4

Source: Departmental information.

1.16 Under the Planning Component, funding was provided for a range of activities including: plans to secure alternative water supplies for recreation reserves and other community green spaces; studies into the impact of climate change on the socio-economic security of an area; a platypus awareness and conservation plan; and groundwater modelling. These grants ranged from \$18 570 to \$800 000, with the median being \$200 000. Projects funded under the Water Saving Initiatives Component included: water and/or effluent recycling and reuse plants; pipeline replacement; and stormwater harvesting projects. These grants ranged from \$24 500 to \$9 270 000, with the median being \$891 000.

46 Sixty-five local government authorities or water utilities received one grant, while 37 local government authorities received two grants and nine received three grants.

1.17 In August 2012, the Australian Government decided to transfer \$100 million from the SBCP to the then Department of Regional Australia, Local Government, Arts and Sport to fund the Murray–Darling Basin Regional Economic Diversification Program. The allocation of the remaining funding is yet to be determined.

Grant administration framework and guidance

1.18 Australian Government grant programs involve the expenditure of public money and are subject to applicable financial management legislation. For the implementation of the SBCP, the *Financial Management and Accountability Act 1997* (FMA Act) provided the framework for the proper management of public money, which includes requirements governing the process by which decisions are made about whether public money should be spent on individual grants.

1.19 The Government introduced a new legislative policy framework for grants administration on 1 July 2009.⁴⁷ This framework had a particular focus on the establishment of transparent and accountable decision-making processes for the awarding of grants, and included new specific requirements under the financial management framework in relation to grants administration and the Commonwealth Grant Guidelines (CGGs). The Government issued a new version of the CGGs in June 2013.⁴⁸ Officials performing grants administration duties must act in accordance with the CGGs.

1.20 The following seven key principles for grant administration were established in the CGGs: robust planning and design; an outcomes orientation; proportionality; collaboration and partnership; governance and accountability; probity and transparency; and achieving value with public money.⁴⁹ Further, the CGGs state that unless specifically agreed otherwise, competitive, merit-based selection processes should be used, based upon clearly-defined selection

47 The new framework followed a number of earlier reforms, including interim measures announced in December 2007, and revised Finance Minister's Instructions in January 2009. Programs already in existence when the new grants policy framework was introduced on 1 July 2009 were not exempt from that framework, including the mandatory requirement that agencies must ensure that grant guidelines and related operational guidance are in accordance with the CGGs. The ANAO has used the CGGs that were current at the time SBCP activities were undertaken. In general, this was the 2009 edition.

48 Department of Finance, *Commonwealth Grant Guidelines (2nd Edition)*, June 2013, Canberra. This audit refers to the 2009 CGGs.

49 Department of Finance, *Commonwealth Grant Guidelines: Policies and Principles for Grants Administration*, July 2009, Canberra, p. 14.

criteria.⁵⁰ Among other things, the CCGs also elaborate on accountability requirements.⁵¹

1.21 Prior to the Finance Minister's Instructions and the CCGs, the ANAO's better practice guides on grants administration have been available since 1997. The ANAO's current Implementing Better Practice Grants Administration guide was published in December 2013.⁵²

Audit objective, criteria, scope and methodology

1.22 The objective of the audit was to assess the effectiveness of the Department of the Environment's administration of the Strengthening Basin Communities Program.

Criteria

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

- the program design reflected the policy intention;
- sound administration arrangements were put in place to support its implementation;
- the assessment and selection process was sound and provided Ministers with sufficient information to support their decisions;
- funding agreements were effectively negotiated and managed; and
- progress against the program's objectives was monitored and reported.

Scope

1.24 This audit did not examine other programs within the Sustainable Rural Water Use and Infrastructure Program or the Water for the Future Initiative.

⁵⁰ *ibid.*, p. 29.

⁵¹ *ibid.*, p. 25.

⁵² ANAO Better Practice Guide—*Implementing Better Practice Grants Administration*, December 2013, Canberra.

Audit methodology

1.25 In undertaking the audit, the ANAO: reviewed all SBCP grant applications, assessment documentation, funding agreements and reports; met with departmental officers and key stakeholders, including potential grant applicants; surveyed all local government authorities in the Basin to obtain their views on the program; and visited selected SBCP Water Saving Initiatives Component projects.

1.26 The audit was conducted in accordance with the ANAO Auditing Standards at a cost to the ANAO of \$399 560.

Report structure

1.27 The structure of the report is outlined in Figure 1.1.

Figure 1.1: Report structure

1. Background and Context
The Murray–Darling Basin
Strengthening Basin Communities Program
Grant administration framework and guidance
Audit objective, criteria, scope and methodology
Report structure
2. Program Design and Establishment
Introduction
Program planning
Stakeholder engagement
Development of program guidelines
Appropriateness of the program guidelines
Assessment guidance and procedures
Conclusion
3. Governance Arrangements
Introduction
Administration and oversight arrangements
Risk management
Performance monitoring and reporting
Conclusion
4. Grant Assessment and Selection
Introduction
Eligibility assessment
Merit assessment of applications
Advice to the decision-maker
Decision review process
Grant reporting
Conclusion
5. Negotiation and Management of Funding Agreements
Introduction
Negotiation of funding agreements
Management of funding agreements
Funding agreement terminations and variations
Monitoring and compliance
Project payments
Outcomes in final project reports
Conclusion

2. Program Design and Establishment

This chapter examines the design of the Strengthening Basin Communities Program and the establishment of the program by the Department of the Environment.

Introduction

2.1 Effective program design supports the achievement of policy outcomes, reflects the objectives of the program, and takes account of the business environment within which the program is to operate as well as the views of the program's stakeholders. The ANAO examined the design and establishment of the Strengthening Basin Communities Program (SBCP), including:

- program planning;
- stakeholder management;
- development of program guidelines; and
- guidance and procedures supporting the grants assessment and selection process.

Program planning

2.2 As outlined in Chapter 1, the then Government committed to the broad policy objectives for the SBCP as a part of its agreement with Senator Xenophon in February 2009. Environment had already considered aspects of the design of the SBCP, with the early drafts of project plans prepared from November 2008 (the time that the Standing Committee on Rural and Regional Affairs and Transport's report on the Water Amendment Bill 2008 was published). While setting an overarching direction for the program, these documents also focussed specifically on design aspects that supported the creation or revision of community-based plans—this would become the Planning Component of the SBCP.

2.3 As the SBCP project plans evolved, the department proposed that the program comprise two components, with funding of \$20 million for a Planning Component and \$180 million for a Water Saving Initiatives Component.

2.4 Early project plans demonstrate that the department considered a range of delivery options for the Planning Component, including providing grants on a competitive basis or at a set amount determined either by population or geographical area. As the design of the Planning Component evolved, the

required funding was calculated based on an estimate that 80 eligible councils (approximately half of the 162 potential applicants) would apply for funding of \$250 000 each on a non-competitive basis (see Figure 2.1 on the following page for a map illustrating potential SBCP Planning Component applicants). At this point, the component was to be delivered in a single round.⁵³ The department considered, from its inception, that the Planning Component was likely to be undersubscribed. The provision of the Water Saving Initiatives Component funding across two rounds, both of which would have a funding pool of approximately \$90 million, has remained unchanged from the program's initial design.

2.5 Departmental records indicate that an initial project plan was endorsed by the Project Board⁵⁴ on 26 March 2009, however, the department did not retain evidence of the approved plan on program files. An updated project plan was endorsed by the Project Sponsor⁵⁵ on 16 November 2009.

2.6 The project plans developed for the SBCP included: information on the program's policy objective and outcome; an evaluation methodology; governance structures; program resources; and an implementation schedule. The attachments to the plans included an assessment of program-level risks and stakeholder needs. Revisions to the project plan occurred over the life of the program to take into account various changes to the governance and implementation arrangements.

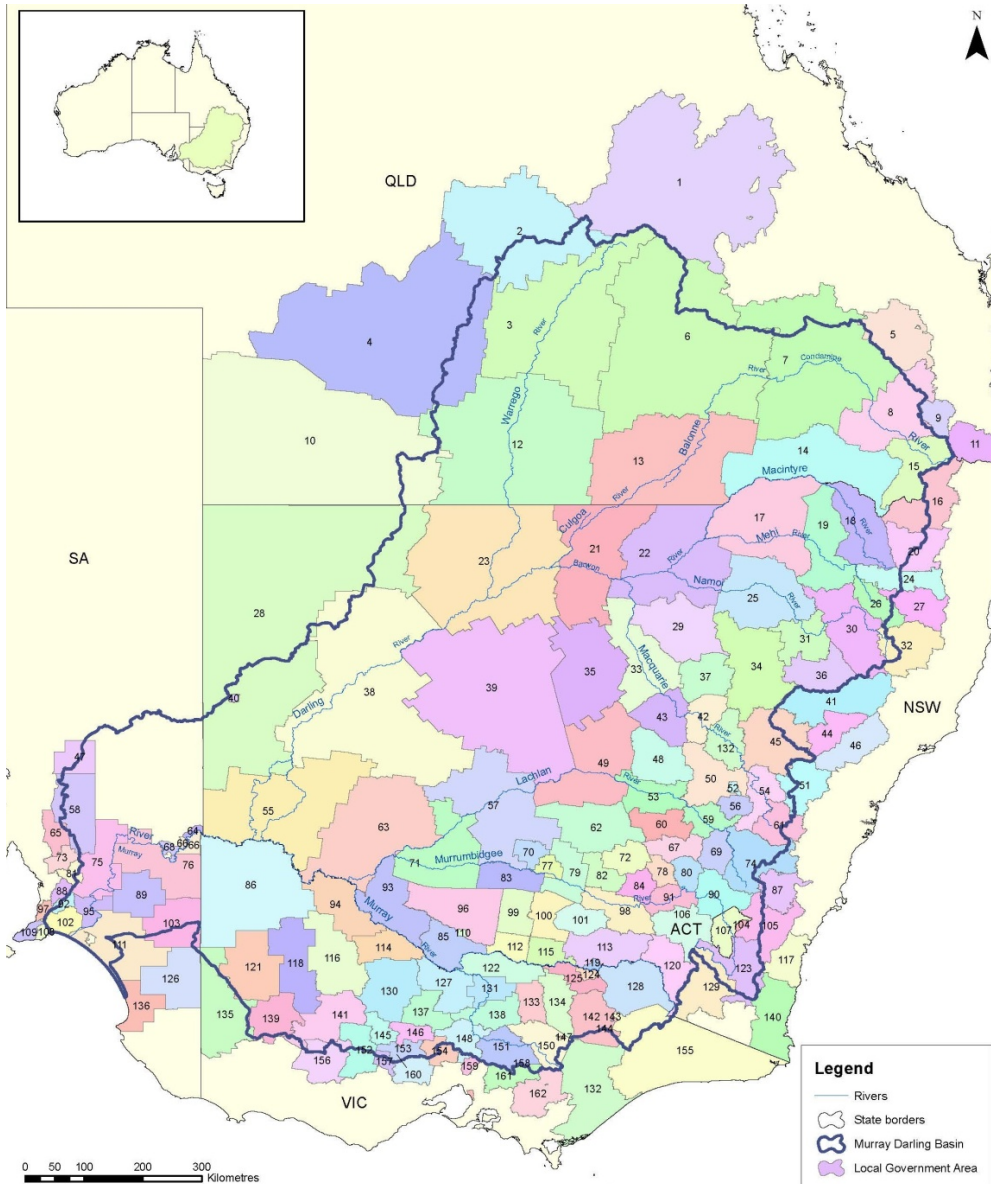
2.7 Early identification of the program's objectives and evaluation methodology provided a sound basis on which to determine performance indicators and include relevant reporting requirements in funding agreements. In addition, the ongoing development and refinement of the plan over time positioned the department to respond to changes in the delivery environment over the course of program implementation.

53 The addition of a second Planning Component round was initiated at the Minister's request (see paragraph 2.14).

54 The Project Board provided high-level governance and decision making as required in relation to the SBCP, including reviewing significant decisions before their submission to the Minister. A more detailed discussion of program oversight is provided in Chapter 3.

55 The Project Sponsor provided program level governance and decision making as required in relation to the SBCP, including management of significant project issues. A more detailed discussion of program oversight is provided in Chapter 3.

Figure 2.1: The Murray–Darling Basin boundary overlaid with 162 local government boundaries



Source: Department of the Environment, 'Map showing the Murray–Darling Basin boundary overlaid with local government boundaries', available from <<http://www.environment.gov.au/water/programs/basin-communities/images/mdb-local-govt-areas.gif>> [accessed 24 June 2013].

Note: See Appendix 2 for legend.

Stakeholder engagement

2.8 As a part of its design and planning work, Environment identified a range of potential SBCP stakeholders. Information on stakeholders gathered during the early stages of the program was consolidated into a Stakeholder Assessment, which formed an attachment to the March 2009 project plan. The assessment consisted of (for each identified stakeholder) an appraisal of:

- perceived interest and influence;
- needs and concerns; and
- actions required of the department to monitor the relationship and manage communications.

2.9 Over the course of program implementation, the Stakeholder Assessment was expanded to create a Stakeholder Management Plan. This plan provided additional and more detailed information in relation to: how each stakeholder could impact the program or be affected by it; the information that needed to be communicated to stakeholders; methods for communication; and an assignment of responsibility for specific tasks. A Communications Plan, based on the Stakeholder Management Plan, was developed in May 2010.

2.10 The department initially developed and subsequently refined its assessment of SBCP stakeholder communication needs over the course of implementing the program. The identification and ongoing management of stakeholder needs provided the foundation for the program's communication strategy. The department subsequently promoted the program and the opening of applications for both components and rounds on its website and through print advertisements in national and rural media. In addition to these activities, potential applicants for Round 2 of the Water Saving Initiatives Component were emailed by the department to notify them of the funding opportunity. In those cases where the department did not receive a response, it followed up with telephone calls.

Stakeholder feedback

2.11 The ANAO sought feedback from potential SBCP applicants regarding the appropriateness of communications from the department. In a survey released to 161 potential SBCP applicants⁵⁶, 84 per cent (36 of the 43 respondents) stated that they were aware of the opportunity to apply for funding under the program. Further, survey respondents generally provided positive feedback on the quality of communication between the department and their organisation.⁵⁷ Only six respondents rated the department's communications at less than three out of five.

Development of program guidelines

2.12 Environment developed the four SBCP program implementation and funding guidelines (program guidelines) as part of the program design process for each component and round. The development of the program's guidelines was undertaken as two separate processes: the Planning Component program guidelines were prioritised for earlier release, while the Water Saving Initiatives Component program guidelines were developed in parallel with the competitive grants element of the National Water Security Plan for Cities and Towns Program (this matter is discussed in more detail at paragraph 2.18).⁵⁸

Planning Component program guidelines

2.13 In April 2009, the department sought comment on the draft Planning Component program guidelines from relevant government agencies and the Australian Local Government Association. While the feedback obtained from these stakeholders was generally positive, minor changes were made, including more detailed advice on the application of the Goods and Services Tax to grant funding.

56 The survey was released to all potential applicants for whom the department was able to provide current contact details.

57 In the ANAO's survey, respondents had the opportunity to provide responses across all components and rounds, to reflect the possibility that they had participated in more than one round or component, or had exposure to different elements of the program. This resulted in the ANAO receiving 112 responses from 43 individual respondents rating the department's communication at key program phases.

58 The *National Water Security Plan for Cities and Towns Program* was comprised of: 2007 and 2010 election commitments; competitive grants; and water and wastewater services in remote (including Indigenous) communities. References to the *National Water Security Plan for Cities and Towns Program* in this report relate to the competitive grants element. Department of the Environment, *National Water Security Plan for Cities and Towns webpages*, 2012, available from <http://www.environment.gov.au/water/policy-programs/cities-towns/> [accessed 26 April 2013].

2.14 The draft Planning Component program guidelines were provided to the Minister on 4 May 2009. The Minister did not endorse them at that time, returning them to the department with a request to consider:

- prioritising areas where there had been a proportionally larger reduction in water availability (including as the result of water purchases);
- including the possibility for more than one funding round;
- referencing climate change in the document's explanatory text;
- extending the timeframes for projects, given the possibility of larger projects; and
- whether the suggested \$500 000 cap on project funding was sufficient for joint/group projects.

2.15 Environment subsequently reviewed the program guidelines with reference to the Minister's comments. On 8 May 2009, the department provided the Minister with revised program guidelines that allowed for more flexibility and clarity in line with the issues raised, with one exception. In relation to the Minister's comment regarding prioritising specific areas within the Basin, the department advised that to prioritise areas based on the effect of government reforms would likely result in increased calls for broad structural adjustment programs.

2.16 The then Minister for Climate Change and Water approved the Planning Component program guidelines on 12 May 2009, with the Expenditure Review Committee of Cabinet (ERC) providing approval on 3 June 2009 in accordance with CGGs requirements. The Planning Component was launched by the Minister and Senator Xenophon on 26 June 2009.

2.17 There were only minor changes to the Planning Component program guidelines between funding rounds. While the Planning Component Round 2 was launched by the Minister on 14 April 2010, Ministerial approval for the program guidelines was provided to the department two weeks later, on 29 April 2010.

Water Saving Initiatives Component program guidelines

2.18 As noted in paragraph 2.12, development of the Water Saving Initiatives Component program guidelines was undertaken at the same time as that of the National Water Security Plan for Cities and Towns Program (Cities

and Towns Program). Although the two sets of program guidelines were initially created separately, the Project Board noted the possible duplication of programs as a risk at its April 2009 meeting.

2.19 In light of the similarities between the programs, it was recommended to the Project Board that the Cities and Towns Program and the SBCP have the same ‘water saving’ objectives and project eligibility. The primary difference between the two programs would be that communities within the Murray–Darling Basin could apply for funding under either program, but would be advantaged by applying under the SBCP as there was greater funding available and fewer potential applicants.⁵⁹

Consultation on program guidelines

2.20 During the development of Water Saving Initiatives Component program guidelines, the department sought comment from the Urban Water Stakeholder Reference Panel.⁶⁰ The panel provided the department with advice regarding the variable capabilities of different councils and noted that ‘longer range planning, including adaptation to climate change, is necessary’.

2.21 Consultation on the program guidelines with departmental staff from the Cities and Towns Program also resulted in changes to the guidelines, including:

- a requirement for grant applicants to provide matching funding. It was considered that this approach would increase their engagement in each project, and would encourage communities to select projects that were likely to provide optimal returns; and
- the establishment of a minimum funding threshold to remove smaller projects that were less likely to provide value for money in return for the department’s administration costs.

2.22 The draft program guidelines were provided to the then Minister who forwarded them to the ERC, with the ERC approving the guidelines on 19 August 2009. The program guidelines for Round 1 of the Water Saving

59 Communities outside the Basin were not eligible for funding under the SBCP.

60 This panel of external advisors was established in 2008 to provide the department with perspectives and views on emerging issues in urban water and advice on the design and implementation of urban water programs for cities and towns. The panel consists of members drawn from diverse fields, including the water services industry, water planning and management agencies, consumer advocacy and research institutions.

Initiatives Component were released by the Minister and the then Parliamentary Secretary for Water on 2 September 2009.

Round 2 guidelines

2.23 In preparation for the conduct of Round 2 of the Water Saving Initiatives Component, the department undertook an internal review of program requirements. There were a number of changes proposed following this review, including: an increase in the maximum funding provided for each grant; an extension to the timeframe for the program; an increase in the insurance applicants would be required to obtain; a decrease in the time allocated for funding agreement negotiations; and a reduction in the co-contribution requirement. With regards to co-contributions, it was noted that there was a significant variation in the resources of different local government authorities within the Murray–Darling Basin and that this requirement may have precluded smaller authorities from applying under the SBCP Water Saving Initiatives Component. These proposed changes were considered by the Project Board, which decided against an increase to the maximum size of a grant and a reduction in the co-contribution requirement. The other proposed changes were endorsed.

2.24 The department provided the then Minister with a briefing that outlined the finalised changes that it proposed to the guidelines between Round 1 and 2 on 12 July 2010. These guideline changes were accepted by the Minister. The department also sought and received confirmation from the Department of the Prime Minister and Cabinet that, although there were changes to the program guidelines, these would not require ERC approval.

2.25 The original date published in the guidelines for closure of Water Saving Initiatives Component Round 2 was 17 September 2010. However, due to flooding in the Basin, this deadline was extended 30 September 2010. In order to provide this extension, the department sought approval from the Department of Finance (Finance) and also contacted potential applicants to advise them of this change.

Appropriateness of the program guidelines

2.26 The program guidelines established for a granting activity should provide key information for parties considering whether to participate in the program. The SBCP program guidelines provided program information to potential applicants, such as the: purpose, scope, objective and desired outcomes of the program; dates the program was open and closed to

applications; total available funding and limitations on individual applicants and consortiums; eligibility and merit assessment criteria; and basic information regarding funding arrangements including, for Round 2 of both components, a link to the standard agreement. However, the inclusion of information on decision review processes and additional information in relation to eligibility requirements, the assessment and selection process, and funding arrangements would have provided potential applicants with a better understanding of the assessment process and how funding agreements would be managed.

Eligibility requirements

2.27 Program guidelines should clearly outline the threshold criteria that applications must satisfy to be considered for funding. This promotes consistent assessment processes and helps to reduce frustration and unnecessary costs by assisting potential applicants to avoid submitting applications that are ineligible or have little chance of success.⁶¹

2.28 The program guidelines for all SBCP components and rounds had sections titled 'eligibility', 'applicant eligibility' or 'project eligibility' with a listing of requirements. In Planning Component Round 1 and Water Saving Initiatives Component Round 2 eligibility requirements were presented in a narrative form, whereas in the other components and rounds they were presented as a list. However, the various guidelines included additional criteria or text that modified eligibility requirements that were not grouped with the other eligibility requirements and were not clearly identified as such. For example:

- in Planning Component Round 2 under the heading of 'eligibility', was the following requirement: 'to be eligible for funding, an application must be submitted by a local government or group of local governments located within the Murray–Darling Basin'. In the additional explanatory text this requirement was broadened to include local government bodies whose area intersected with the catchment boundary; and
- in Water Saving Initiatives Component Round 2 under the heading 'eligible projects', was the following requirement: 'to be eligible for

61 ANAO Better Practice Guide—*Implementing Better Practice Grants Administration*, December 2013, Canberra. p. 49.

funding a project proposal must have total costs of at least \$500 000'. However, under the heading 'period and range of funding', the statement 'Applicants are required to contribute a minimum of 50 per cent of the total project value in cash'⁶² adds a further requirement.

2.29 The clarity surrounding the criteria to be used to determine eligibility for this program was also adversely affected by the addition and removal of criteria over the course of the SBCP implementation or the reclassification of eligibility criteria. For example, the timeframe for project completion in Planning Component Round 1 was described in the guidelines in a section titled 'How soon must the project be completed?' whereas it was included explicitly as an eligibility requirement in Round 2. The clarity and transparency of the grant assessment process would have been assisted by all eligibility requirements being grouped and clearly identified as such in the program guidelines.

Assessment and selection process

2.30 The assessment procedures outlined in all program guidelines provided for an eligibility assessment to be followed by the ranking of applications against the merit or prioritisation criteria. There was no additional information regarding how eligibility would be assessed or who would undertake this assessment. The department would then provide a recommendation to the Minister for the final decision.

2.31 In practice, the process followed in each round and for both components was more detailed. After undertaking the eligibility assessment, the department assessed each criterion separately, assigning a score for each of up to a maximum of five. It then applied a threshold for each criterion (a score of three or above), that each applicant would be required to meet before the application could proceed to the ranking stage. This process is discussed in more detail in Chapter 4.

2.32 The use of a threshold is a sound risk mitigation tool where weaknesses in one or more criteria are likely to affect the outcomes of the application as a whole. However, the use of criterion thresholds was not communicated to applicants in the SBCP program guidelines. Providing information on the

⁶² Department of the Environment, *Strengthening Basin Communities Program—Water Saving Initiatives Component Round 2 Implementation and Funding Guidelines*, July 2010, p. 8.

adoption of criteria thresholds would have better positioned potential applicants when deciding on whether it was cost effective to invest time and resources in preparing an application where they were not competitive across all prioritisation or merit criteria. In the event, 27 projects that the department had assessed as being eligible did not receive funding due to their inability to meet the threshold requirement. However, none of these projects achieved a higher score than a project that received funding.

Funding arrangements

2.33 The program guidelines advised applicants that funding agreements were to be designed using the milestones indicated in the application form and that funding was to be linked to demonstrated achievement of milestones. Reporting arrangements were to be included in funding agreements as a separate schedule. The application form for all rounds of the SBCP required applicants to accept the terms and conditions of the department's standard funding agreement. Given this requirement, it would have been helpful to have provided a sample funding agreement with the program guidelines. However, the sample funding agreement was not made available to Round 1 applicants (both components). The department identified and addressed this issue for Round 2 (both components) by providing a copy of the funding agreement on the department's website.

2.34 There was also a discrepancy between the program guidelines and the funding agreements with regards to the reporting of grant funding. The Round 1 Planning Component program guidelines stated that an independently audited financial statement was required at the end of the project. However, the funding agreements increased the frequency to each financial year where grant funding had been spent, with a final report required before the final payment would be released.

Stakeholder views on the program guidelines

2.35 The ANAO's survey of potential applicants sought their views in relation to the clarity of the SBCP program guidelines. Of the 93 responses to

this question (from 33 individual local government authorities), the majority (89) considered the program guidelines to be clear.⁶³

Assessment guidance and procedures

Departmental grant administration guidance

2.36 The then Department of the Environment and Water Resources (now the Department of the Environment) released Chief Executive's Instruction (CEI) No 4.12 Grants in September 2007, prior to the design of the SBCP.⁶⁴ The instruction sets out the policies governing the administration of grants by the department, with guidance on the responsibilities of staff administering grants, such as: approvals; payments; preparing and managing funding agreements; and authorisations. The current version includes updated and expanded information on: the development of program guidelines for a grant program; the requirements of the *Financial Management and Accountability Act 1997*; and advice to the Minister.

2.37 In July 2011, the department issued additional guidance to departmental officers with responsibility for grants administration titled 'Establishing and Administering a Grant Program: Guidelines for Managers and Team Members of Grant Programs'.⁶⁵ These guidelines form part of the department's grants administration framework and set out the procedures for the establishment, administration and management of a grant program. Overall, the guidelines, which provide advice covering development of a grant program to its closure, establish a sound basis for departmental staff on which to administer grant programs.

63 The survey question was: On a scale of 1–5 (1 being poor and 5 being excellent) how clear did you think the guideline documents for the SBCP were? Clear guidelines are consistent and comprehensive, and provide potential applicants with all the relevant information concerning the program. Four respondents ranked the guidelines as less than three.

64 This instruction has been updated four times over the SBCP's implementation, in September 2009, August 2010, April 2011 and July 2012.

65 A revised edition was issued on 10 August 2011. While the assessment and selection process of the SBCP had been completed by this time, the guidelines also provided information on the management of grants once awarded.

Program specific evaluation guidelines

2.38 In addition to the departmental guidance material, the department created SBCP specific assessment and evaluation⁶⁶ guidelines for each component and round of the program. The assessment and evaluation guidelines were finalised prior to the commencement of the application assessment process.

2.39 All versions of the assessment and evaluation guidelines included information on: roles and responsibilities of departmental officers involved in application assessment; the assessment methodology; the procedures to manage confidentiality and conflicts of interest; and recordkeeping. In addition, they included assessment templates, but these varied between components and rounds due to different criteria and assessment processes.

Probity plan

2.40 Probity relates to ethical behaviour, and in relation to grants administration, involves applying and complying with public sector values and duties, such as honesty, integrity, impartiality and accountability.⁶⁷ A common approach to managing probity issues that may arise from these processes is to develop and document a probity plan. Agencies administering grants programs may also choose to appoint a probity advisor to oversee the grant assessment process.

2.41 The department engaged an external probity advisor on 21 August 2009, after the application period for the first round of the Planning Component closed. The probity advisor was engaged to review: the June 2009 Planning Component program guidelines (Round 1); the program website; the Planning Component Round 1 application form; the Application Assessment Guidelines; and to confirm that there was no conflict between the program guidelines and the assessment documentation.

2.42 Overall, the probity advisor found that the documentation was consistent, and met the objectives of the program in a clear and transparent manner. However, two potential issues were identified: a lack of clarity

66 For Planning Component funding rounds, these guidelines were referred to as Assessment Guidelines and the guidelines developed for the Water Saving Initiatives Component were referred to as Evaluation Guidelines.

67 Department of Finance, *Commonwealth Grant Guidelines: Policies and Principles for Grants Administration*, July 2009, Canberra, p. 27.

regarding whether applications should be provided digitally or in hard copy; and the application form not providing adequate space for applicants to give sufficient detail against each criteria to allow project assessment. The probity advisor also noted a difference between the second eligibility criterion in the Application Assessment Guidelines and the program guidelines. It was recommended that the wording from the program guidelines be used, as these were considered to be clearer.

2.43 The engagement of the probity advisor, and the subsequent review of program documentation after the release of Planning Component Round 1 program guidelines, meant that the department was unable to implement the changes recommended for this round. While these comments were of limited value for Planning Component Round 1, they were applied to future rounds.

2.44 The probity advisor was subsequently engaged to develop a Probity Plan for the SBCP, and review the Evaluation Plan for the Water Saving Initiatives Component Round 1. The Probity Plan, which applied to both components of the program, was accepted by the department in September 2009. It applied to the assessment and selection process and described the probity issues and actions to be taken to help to ensure the integrity of the process. The plan also provided guidance on: recordkeeping; conflicts of interest management; confidentiality procedures; dealing with potential and actual applicants; receiving, recording and assessing applications; and the expectation that all guidelines for the program would comply with government policy and be clear and unambiguous. The plan included a detailed table of probity tasks and steps to be completed as each activity was performed.

2.45 While the review of program documentation by the probity advisor did not identify any inconsistencies, the ANAO identified the following inconsistencies between the program guidelines and the evaluation and assessment guidelines: the program guidelines, for both components, included the addition of a threshold, a minimum score of three out of five across all merit criteria; for Water Saving Initiatives Component assessment, the evaluation guidelines included a weighting of each criterion that was not included in the program guidelines; and for Water Saving Initiatives Component Round 2, the evaluation guidelines did not include the requirement that the applicants' 50 per cent contribution be in cash, a requirement that was included in the program guidelines.

2.46 In relation to the weighting of criteria, the department decided to follow the assessment process outlined in the publicly released program guidelines and did not weight the criteria. With regards to the other inconsistencies identified, the department decided to follow the assessment process outlined in the evaluation guidelines, which was not disclosed to potential applicants (see Chapter 4 for further discussion of this issue).

2.47 The probity advisor was not engaged to review the updated program guidelines or associated program documents, nor were they involved in observing the assessment of applications or in managing conflict of interest in the second round of both components. In many grant programs, probity advisors are engaged to review the implementation of the probity plan, including through observation of the assessment process and outcomes, but this is a matter for decision by departments on a case-by-case basis.

Managing conflicts of interest

2.48 Environment was aware of the potential for conflicts of interest to arise during the implementation of the SBCP. To manage this risk, the department required all departmental officers involved in the assessment of applications to sign a conflict of interest statement.

2.49 Water Saving Initiatives Component funding rounds applications were assessed by departmental staff with an externally sourced technical advisor joining the assessment panel in Round 1. In Round 2, a panel of technical advisors sourced from consultant firms provided advice to assist departmental officers in the assessment of applications (this process is described in Chapter 4).

2.50 Prior to receiving applications, all external technical advisors were required to sign a conflict of interest statement. In Round 1, this document covered the same statements as the internal conflict of interest declaration. In Round 2, this statement addressed whether the advisor or their company had been involved in the preparation of the application or supporting documentation for Round 2 of the Water Saving Initiatives Component of the applicant or consortium members. It did not specifically require the consultant to disclose information about any relationship with the applicant in previous SBCP projects (Planning Component or Water Saving Initiatives Component Round 1) or in any other context. All statements were signed before the technical assessors were provided with the applications.

2.51 The ANAO's review of previous SBCP funding rounds identified that two of the three consultant companies engaged to undertake assessments under Water Saving Initiatives Component Round 2 had also been engaged by grant recipients for previous SBCP rounds. Neither of the consultants disclosed this relationship in the signed conflict of interest statements, as the form did not specifically require them to do so. Three technical assessments were undertaken by advisors that had a prior commercial relationship with the applicant—or a consortium of which the applicant was a part—through previous SBCP rounds.

2.52 The department did not analyse available information to determine whether consultants had a relationship with applicants through the SBCP, although this information was requested as a part of progress reports and, therefore, was held by the department. Further, the department did not publicise information on the external advisors to the assessment process to allow applicants to identify any potential conflicts of interest. These weaknesses in oversight and management of potential conflicts of interest adversely affected the probity of the process and increased the risk of inequitable treatment of applicants.

Conclusion

2.53 Environment designed the SBCP to reflect the policy parameters established by government and developed appropriate arrangements to guide program implementation, including project and stakeholder engagement plans.

2.54 The department subsequently published approved program guidelines for each component and round of the SBCP. The development of the guidelines was informed by consultation with internal and external stakeholders, including relevant government agencies and the Minister. While the guidelines provided a broad range of information to applicants, there was scope for the department to have more clearly defined the eligibility requirements. In addition, the provision of additional information on aspects of the assessment and selection process, such as: the requirement that applicants achieve a minimum score against each criterion during merit assessment before being recommended for funding; and the department's approach to managing funding agreements, would have enhanced the transparency of the process.

2.55 Four program evaluation or assessment plans (one for each component and round) were prepared to guide the assessment process. However, there

was a lack of consistency between the evaluation and assessment plans and the published program guidelines, which adversely affected the transparency and clarity of the assessment process. In several cases, departmental officers adopted assessment processes that were inconsistent with the published program guidelines, such as the minimum score that applicants were required to meet for each criterion during merit assessment. Twenty-seven projects that the department had assessed as being eligible did not receive funding because they did not meet these threshold requirements. If this information was included in the program guidelines, applicants that were not competitive across all criteria may have decided against investing resources in preparing an application.

2.56 In the administration of a grants program, there is an obligation on administering agencies to appropriately manage probity issues, including the management of actual, potential or apparent conflicts of interest. While a probity plan was prepared and a probity advisor appointed, the department's narrow view of conflict of interest did not explore the breadth of possible relationships between applicants and technical assessors. Therefore, there was scope for the department to have better managed conflicts of interest for technical advisers participating in the assessment and selection process.

3. Governance Arrangements

This chapter examines the governance arrangements established for the Strengthening Basin Communities Program.

Introduction

3.1 Governance refers to the practices, policies and procedures, exercised by an agency's executive, that provide strategic direction and help to ensure objectives are achieved, risks are managed and resources are used responsibly. The ANAO examined Environment's governance arrangements for the SBCP, including:

- administration and oversight arrangements;
- program risk assessment; and
- performance monitoring and reporting.

Administration and oversight arrangements

3.2 Broadly, the governance roles and responsibilities for the SBCP included a:

- Project Board, with high level governance and decision making responsibilities for this and other programs managed within the same Group (the Water Group);
- Project Sponsor, at the Assistant Secretary level, who was responsible for program level governance; and
- Project Manager who was responsible for project level governance and decision making, and day-to-day administration of the program.

3.3 As SBCP was delivered within the governance structures established for the Sustainable Rural Water Use and Infrastructure Program (SRWUIP)⁶⁸, there was also a role for the SRWUIP Program to provide strategic management, including oversight of the budget, parliamentary briefings and

68 The SBCP contributes to a larger government initiative, the *Water for the Future Initiative*. Within this broader initiative, the SBCP is a sub-program of the SRWUIP. SRWUIP comprises over 40 different projects, programs and policy announcements ranging in size from \$1.2 million to \$1 billion.

external communications and broader program level risk management (see Appendix 4 for the governance structure of the program).

3.4 The oversight arrangements for the program were underpinned by regular reporting and the involvement of senior officers at key stages of implementation, for example the review of funding recommendations prior to provision to the decision-maker. Overall, the arrangements developed by the department for the program provided appropriate oversight of the design and implementation of the program. There was scope, however, for greater involvement of the Project Board⁶⁹ in some program decisions. For example, program records did not indicate that the Board was advised of the adoption of in-principle funding recommendations and the staged activation of four funding agreements prior to their submission to the Minister. As a consequence, it was not well placed to assess the impact of these approaches on the implementation of the program.⁷⁰

Risk management

Program risks

3.5 An important aspect of program governance is the identification and assessment of risks that may adversely affect program delivery, and the development of mitigation strategies to address identified risks. The SBCP risk assessment was initially prepared in March 2009, with the program receiving an overall risk rating of medium. While this assessment outlined eight risks, it did not include a risk rating or mitigation strategy for the individual risks.

3.6 In October 2009, the risk assessment was reviewed, with the number of risks reduced to four. The revised assessment incorporated risk ratings and risk controls, including an assessment of their adequacy. The risk assessment remained relatively stable over the life of the program, with further revisions undertaken in February 2011 (to take into account the lower than expected take up of grants) and in May 2011 (to include an additional risk of death or permanent injury to program participant/grant recipient or a third party attributable to the program). As at December 2013, the overall risk profile for

69 The Project Board was responsible for providing high level governance and decision making, including reviewing significant decisions before their submission to the Minister.

70 These two issues related to Water Saving Initiatives Component Round 2 and are discussed further in paragraphs 4.53 and 5.13.

the SBCP has been assessed by the department as 'medium'. Coverage of risk was a standing inclusion in the Project Board monthly report.

Project risks

3.7 Environment also monitors the risks to the delivery of funded projects. The Program Director receives weekly reports that are focused at a project level, providing a traffic light and risk status of each project as being either:

- 'on track' — all progress reports from the recipient are up to date;
- 'project needs to be closely monitored' — some reports are outstanding; or
- 'project needs specific and immediate interventions'.

3.8 The department informed the ANAO that the risk status recorded in these reports was based on each project officer's opinion of the risk level of each project. Officers were not provided with written guidance on completing these risk assessments, in particular whether the risk related to the: project's current progress; likelihood of the project being completed on time; or project's likely outcomes against the requirements set out in the funding agreement.

3.9 To determine the integrity of the risk rating system, the ANAO reviewed the status of each project and its subsequent risk rating. While risk ratings were likely to increase where projects were behind schedule, departmental records did not outline any consistently applied criteria to determine increases in risk ratings. The absence of guidance or a moderation process increases the risk of inconsistent assessment, treatment and reporting of project risks.

3.10 The ANAO's testing also identified a number of errors in the summary information included in performance reports. In some reports, the overall percentage for projects 'on track' included not only projects marked as being 'on track,' but also projects that had been completed and terminated. In addition, there were a number of instances where information was not updated in the reports for several weeks.

Performance monitoring and reporting

3.11 The ANAO reviewed the department's performance reporting framework in order to assess whether it had established: program and component objectives that reflected the policy underpinning the program; relevant and appropriate measures to monitor the program's performance

against its objectives (key performance indicators (KPIs) and deliverables); and accurate and timely reports.

Program and component objectives

3.12 The outcomes expected from the SBCP were defined in the correspondence between the Government and Senator Xenophon in 2009. The objective outlined in the correspondence was ‘to assist them [local government authorities] in planning for a future with less water, and associated local water saving initiatives’.

3.13 The program guidelines, which were approved by ERC, provided further detail, with the SBCP’s objective described as:

to assist local government bodies in the Murray–Darling Basin to better plan for climate change and identify local water efficiency measures that meet the needs of communities now and into the future.

3.14 The program objective has evolved over the course of implementation. In November 2009, the objective outlined in internal departmental documents was revised as follows:

To contribute to Departmental Outcome four⁷¹ by providing funding for Local Municipalities in the Murray–Darling Basin to assist them in community-wide planning for a future with less water; and to invest in water savings initiatives including cost effective water infrastructure that meets the needs of communities now and into the future.

3.15 The department has also defined objectives for each separate component of the program. While the program and component objectives have been reviewed over time, they continue to reflect the policy intentions of the Government.

External performance monitoring and reporting

Design of performance indicators

3.16 Under the Australian Government reporting framework, Portfolio Budget Statements (PBS) set out the budget and performance expectations of

71 Outcome 4: *Sustainable Water*. DSEWPac, *Annual Report 2011–12*, available from <<http://www.environment.gov.au/about/publications/annual-report/11-12/index.html>> [accessed 25 July 2013].

programs and reporting against these expectations is published in annual reports.

3.17 Environment has generally not reported on the SBCP's deliverables and outcomes at the program level⁷², with performance information on the SBCP consolidated with other programs administered under SRWUIP and reported under departmental Outcome 4: Program 4.1 (currently Outcome 4 *Sustainable Water* and Program 4.1 *Water Reform*).

3.18 The reporting of the outcomes of the SBCP under Outcome 4 is appropriate and it would not generally be expected that a small program, such as SBCP, would be reported separately in the PBS. Nevertheless, the outcome, KPIs and deliverables, under which it is reported, should align with the outcomes of the program.

3.19 While the objective of Program 4.1 has changed a number of times over the implementation of the SBCP, it has generally focused on achieving more efficient and flexible water use, greater security and sustainability, and better environmental outcomes. The number and coverage of deliverables and KPIs have also changed over time. The deliverables and KPIs established for Program 4.1 relevant to SBCP focused on the measurement of water savings and use of alternative water sources. These KPIs did not capture the deliverables from the Planning Component of the SBCP, nor did they reflect the SBCP program parameters, which do not require recipients of Water Saving Initiatives Component grants to return water entitlements to the Government or the environment.

3.20 In 2011–12, the department modified the PBS deliverable for Program 4.1 to include:

- funding communities and irrigation providers to update their water management plans and upgrade on and off farm irrigation; and

⁷² In the 2009–10 Annual Report, the number of projects and number of local government authorities that had received funding under SBCP was specifically reported. Department of Environment, Water, Heritage and the Arts, *Annual report 2009–10*, available from <<http://www.environment.gov.au/about/publications/annual-report/09-10/pubs/annual-report09-10.pdf#p.199>> [accessed 18 August 2013]. In 2011–12, the department described its expenditure against Water Smart Australia and the SBCP as \$56 million in over 120 projects with a case study. It also noted that the Commonwealth's investment in these types of projects since 2005–06 totalled \$1.4 billion. DSEWPac, *Annual Report 2011–12*, 2012, available from <<http://www.environment.gov.au/system/files/resources/313a0d8d-99e8-4cf9-990e-d2e98527a7d6/files/annual-report-2011-2012.pdf>> [accessed 19 August 2013], p. 139.

- infrastructure to support efficient water management, with water savings shared between irrigators and the environment.

3.21 This deliverable more closely aligns with the outcomes of the Planning Component, however, it does not reflect that the water saved through projects funded under the Water Saving Initiatives Component of the SBCP was generally retained by the local government authority, rather than being returned to either irrigators or the environment. There is scope for Environment to more closely align the PBS deliverables with the outcomes of subsidiary programs.

3.22 The department also set targets that would enable the measurement of program achievements for Outcome 4. These targets reflected quantities of ‘water saved’ or provided from a ‘new source’, but did not define these terms, or outline where the saved or new source water would be allocated for use. While the department’s PBS does not include SBCP-specific KPIs to inform external stakeholders of program performance, a set of indicators has been established to inform internal stakeholders (discussed later in this chapter).

Quality and clarity of information reported

3.23 In the 2010–11 and 2011–12 annual reports, Environment reported the quantity of water provided from new sources and saved under Program 4.1. These figures reflected the combined results of a number of SRWUIP programs, including the National Urban Water and Desalination Plan, the SBCP and the Cities and Towns Program. In 2010–11, background information regarding the programs that contributed to the figures was not published in the annual report, and the breakdown of how much water each program contributed to the total amount was not reported. The department provided additional details regarding the programs that contributed to the total in 2011–12, but not the proportion of water contributed by each program.⁷³

3.24 As previously stated, there were no requirements under the SBCP to surrender or extinguish water entitlements at the completion of the funded

73 DSEWPac, *Annual Report 2011–12*, 2012, available from <<http://www.environment.gov.au/system/files/resources/313a0d8d-99e8-4cf9-990e-d2e98527a7d6/files/annual-report-2011-2012.pdf>> [accessed 19 August 2013], p. 139.

projects.⁷⁴ Recipients were able to maintain their water entitlements for other uses within their municipalities, including increasing green spaces, which would potentially result in additional water use. Therefore, savings or the use of alternative sources of urban water as a result of this program, does not contribute to a return of water entitlements to either the Commonwealth or to the environment.

3.25 The ANAO surveyed recipients of the SBCP Water Saving Initiatives Component grants to determine how the water gained through funded projects would be used. Of the respondents to the survey that answered this question, 35 per cent (10) stated that they would keep all or part of their water licences/entitlements for future use.

3.26 The department informed the ANAO that, in the period between Water Saving Initiatives Component grants being approved and the completion of the project, the contribution from the SBCP to the water savings/use of alternative water sources that was reported in the annual reports was based on the estimate by the grant recipients of how much water their projects would save once completed. This figure was reviewed during the grant application assessment process by a technical expert to provide additional assurance that it was achievable. This estimate was revised at the completion of each project to align with a new estimate provided by the grant recipient in the final report.

3.27 As a result of this approach, the data reported in the department's annual reports are, at best, an estimate of the potential of the system (given optimal climatic conditions), and do not reflect the measurement of actual water savings/use of alternative water sources achieved by the SBCP. The annual reports do not include a statement indicating that the reported figures are based on estimates, nor is there recognition that the department is including water savings from projects that are yet to be completed.

3.28 In the 2011–12 PBS, Environment indicated that, in 2015, it would provide 'quantitative and qualitative evidence of additional urban water' delivered as an outcome of projects funded under Program 4.1.⁷⁵ In the 2011–12

74 Of the programs that contributed to 'water savings' or 'alternative sources of water', only the Adelaide desalination plant was required to return water entitlements to the Australian Government. The WaterSmart Australia Program required some grant recipients to share water entitlements with the Australian Government, however, none were required to surrender/extinguish water entitlements as a requirement of the program.

75 DSEWPaC, *Portfolio Budget Statements 2011–12*, available from <<http://www.environment.gov.au/about/publications/budget/2011/pubs/pbs-2011-12.pdf>> [accessed 19 August 2013], p. 62.

Annual Report, the department also stated that it had collected appropriate data in 2011–12 and preceding years to enable the provision of this report.⁷⁶ The department has not, however, collected data on whether SBCP grant recipients have returned water entitlements, nor has it measured the change in water use as a result of funded projects. There is no provision in the funding agreement that requires grant recipients to measure changes in water use after the completion of the final report. Furthermore, the finalisation letter sent by the department concludes its relationship with the grant recipient, reducing the opportunity to request or require additional data to be provided. As a consequence, the department is not well placed to accurately measure and quantify whether the objectives of the program have been achieved through the funding of SBCP projects.

Internal Performance Management and Reporting

3.29 During the design of the SBCP, the department developed the following internal program KPIs:

- take up of planning assistance by local government municipalities;
- take up of water infrastructure grants and resulting water savings estimates versus actual;
- level of community engagement by local government municipalities; and
- measurement of water savings—variety of options and different approaches adopted.

3.30 The take up of planning assistance by local government authorities and the take up of water infrastructure grants and resulting water savings has been calculated and included in briefings prepared by the department since the announcement of Planning Component Round 2. However, the remaining performance measures are yet to be assessed. The department stated that these measures would be reported against in the SBCP evaluation, which it indicated will be completed in 2014.

3.31 Environment's reporting to date has focused on program implementation, rather than the impact or effectiveness of the program.

⁷⁶ DSEWPac, *Annual Report 2011–12, 2012*, available from <<http://www.environment.gov.au/system/files/resources/313a0d8d-99e8-4cf9-990e-d2e98527a7d6/files/annual-report-2011-2012.pdf>> [accessed 19 August 2013], p. 146.

Measuring the effect—positive or negative—that the program has had on the community would better place the department to inform the Parliament and the public of the achievements of SBCP objectives. A similar conclusion was reached in an evaluation of the SBCP's overarching program, SRWUIP, undertaken by an external management advisor in April 2012. The evaluation report noted that a performance measurement framework, which would reliably and accurately measure outcomes, was absent at the program level and across the whole of SRWUIP.

3.32 In response to the external management advisor's report, the department agreed to establish a performance measurement framework to accurately and reliably record performance data and measure project outcomes. Measureable objectives were to be established for each project to enable monitoring programs to measure the achievement of progress against objectives. The department has advised that the framework is currently under development.

Conclusion

3.33 The oversight arrangements for the SBCP provided a sound basis on which to guide the design and implementation of the program and the approach adopted to manage program and project risks was generally appropriate. There was, however, scope for: increased involvement of the Project Board in some implementation decisions, such as the adoption of in-principle funding approvals; and for the provision of additional guidance to program staff assessing project risks—particularly criteria—to reduce the potential for inconsistency between assessments and to enhance the reliability of reported outcomes.

3.34 The department has established overarching performance measures for the SBCP along with similar water programs and reported on consolidated achievements. While the consolidation of performance measures is an appropriate approach given the scale of the SBCP, the measures were not well aligned to the outcomes of the SBCP and the programs that contributed to reported information have not been consistently identified. The frequent changes to PBS program objectives and key performance indicators have also made it more difficult for stakeholders to determine the performance of the program over time. These difficulties are compounded by the department's reporting of estimated water savings achieved under the SBCP, in some cases for projects that were yet to be completed, as opposed to actual achievements

from funded projects. The planned evaluations and reviews of the SBCP and similar water programs scheduled for 2014 and 2015 should provide further insights into program achievements, but they will be challenging given the limited performance data collected to date.

Recommendation No.1

3.35 To improve the measurement and reporting of program performance, the ANAO recommends that the Department of the Environment:

- reinforces the importance of developing appropriate key performance indicators to measure program achievements; and
- provides sufficient explanatory information in performance reports to enable internal and external stakeholders to accurately assess program performance.

Environment's response: *Agreed*

4. Grant Assessment and Selection

This chapter examines the assessment and selection of applications for the Strengthening Basin Communities Program.

Introduction

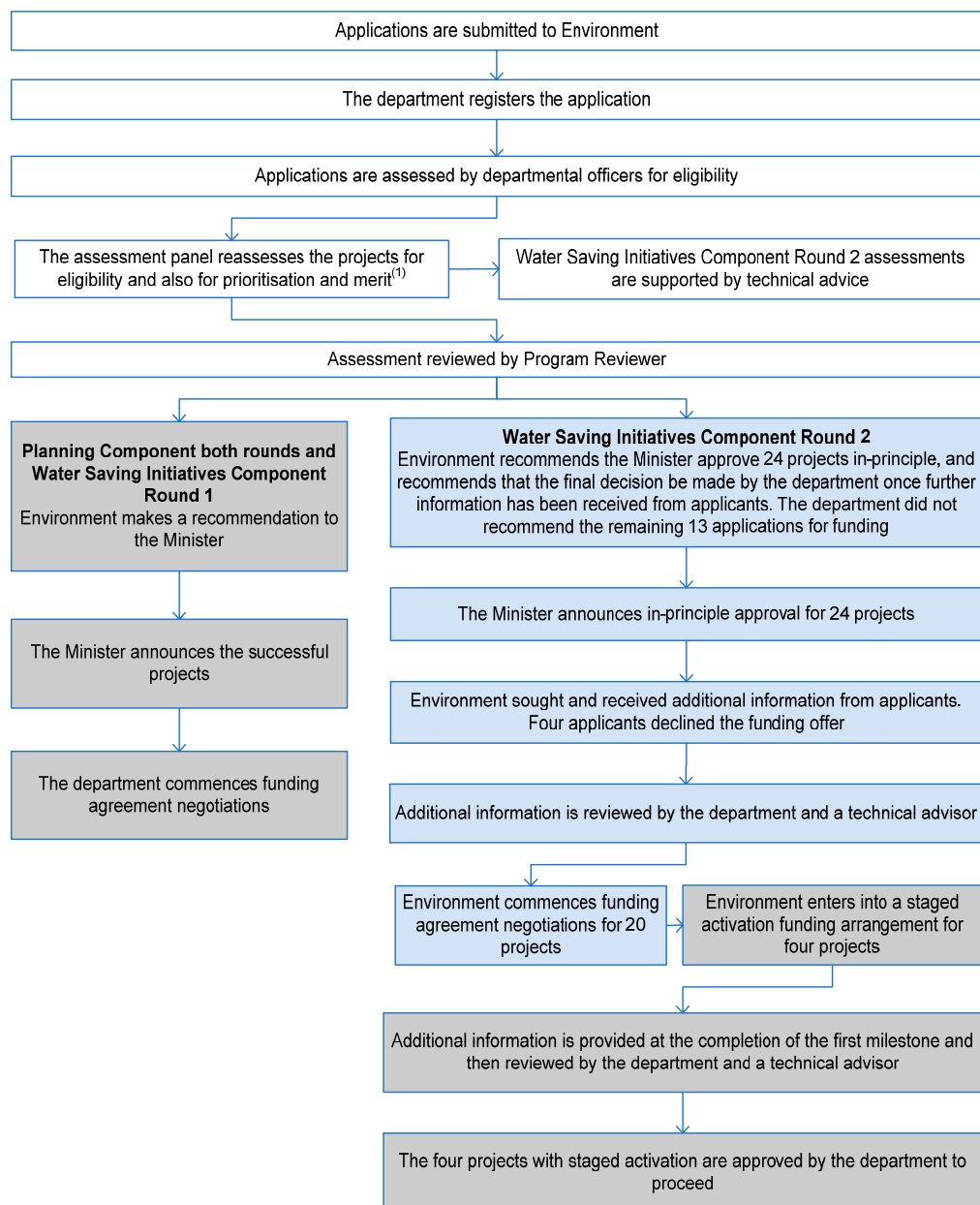
4.1 A key consideration in the assessment of grant applications is the equitable and transparent selection of grant recipients in accordance with the process outlined in the program guidelines and assessment plan. The Strengthening Basin Communities Program's (SBCP's) two separate components had different eligibility, merit or prioritisation criteria⁷⁷ and assessment procedures. The ANAO examined the processes established by Environment to assess and select applications for funding, including the:

- receipt of applications;
- eligibility and merit assessment process;
- advice to the decision maker;
- advice to the applicants;
- decision review process; and
- reporting of grants.

4.2 Environment's process for the assessment and selection of grant recipients is outlined in Figure 4.1. Broadly, this involved departmental officers receiving and registering applications before completing an initial review of eligibility. Applications were then provided to an assessment panel, (comprising departmental officers) that completed a supplementary check for eligibility in addition to assessing the application against the merit or prioritisation criteria. The Water Saving Initiatives Component Round 1 panel also included an external member with a technical background. Water Saving Initiatives Component Round 2 assessments were conducted by departmental officers supported by technical advice provided by consultant firms. The panel's recommendations were further reviewed by another departmental officer before being forwarded to the Minister for decision.

⁷⁷ The merit assessment of eligible projects in the Planning Component was undertaken against prioritisation criteria. For the Water Saving Initiatives Component, it was undertaken against merit criteria.

Figure 4.1: Grant recipient assessment and selection process



Source: ANAO analysis of departmental information.

Note 1: The assessment panel for Water Saving Initiatives Component Round 1 included an external technical advisor.

Receipt of applications

4.3 Environment received 39 applications for Planning Component Round 1⁷⁸ and 35 for Round 2. Twenty-two applications were received for the first funding round of the Water Saving Initiatives Component, but this was later reduced to 21, as two applications were merged⁷⁹ and 37 applications were received for Round 2.

4.4 The department assigned a sequential number to each application in the order that it was received and entered summary details for each application into a spreadsheet. This process was used to register the receipt of applications for all four rounds of the program.

Eligibility assessment

4.5 Eligibility criteria are the threshold requirements that all applications must fulfil in order to be considered for funding. As discussed in Chapter 2, the department's decision not to group all eligibility requirements in the guidelines reduced clarity for both potential applicants and assessors as to the requirements that a project had to meet in order to be considered eligible for funding.

Planning Component

4.6 Planning Component Round 1 eligibility criteria comprised applicant and project eligibility as set out in Table 4.1.

78 One application was subsequently withdrawn as the applicant had also submitted an application for a different project.

79 This occurred as there were two applications, one from a local government authority and one from a local business, for similar projects in the same area. The local government authority assumed management of the merged project.

Table 4.1: Planning Component eligibility criteria

Applicant Eligibility Criteria
<p>Local government bodies in the Murray–Darling Basin may apply for funding. Applicants can be either an individual local government, a consortium of local governments, or an established regional organisation of councils. A local government can apply for funding either individually or as a member of a consortium/regional grouping but not both.</p> <p>Local government bodies that intersect with the catchment boundary of the Murray–Darling Basin are eligible to apply for assistance under these guidelines. Local government bodies on the boundary are encouraged to consider the criteria for prioritising proposals outlined later in these guidelines before submitting an application.</p>
Project Eligibility Criteria
<p>Funding assistance will be provided to local government bodies to systematically assess the risks and implications associated with climate change, with a particular focus on water availability, and then review existing plans to take account of these risks and implications. Funding will be available for local government to review and update existing plans or develop new plans, such as:</p> <ul style="list-style-type: none">• corporate management and financial plans;• community and economic/tourism development plans;• development strategies and land use plans;• natural resource and environmental plans;• infrastructure and asset plans (including water savings plans); or• risk assessment and management plans (including climate risk). <p>Projects must be based on the best available scientific and economic information and rigorous methods, obtained from credible sources and/or appropriately qualified suppliers.</p> <p>Projects must be completed within 24 months of approval.</p>

Source: Department of the Environment, *Strengthening Basin Communities Program Planning Component Round 1—Implementation and Funding Guidelines*.

Round 1

4.7 Of the 38 applicants assessed against the eligibility criteria, one was determined by the department to be ineligible as it was not a local government body, consortium or regional grouping of local government bodies. The remaining 37 applicants were considered eligible, although some applicants were required to provide further project information on matters such as milestone timeframes and budgets. The department retained documentation relating to the eligibility assessment of 37 of the 38 applicants. The department could not locate the file for the remaining applicant.⁸⁰

80 The department has replaced this file with a temporary file that contains information replicated from unofficial digital systems. However, there is no information on the assessment of eligibility or merit on the temporary file.

4.8 The department used a 'preliminary assessment sheet' to record its assessment of each applicant and project for eligibility. Although the preliminary assessment sheet was retained for all but one application, it was not always signed or dated by the departmental officer that completed the assessment. Eleven assessment sheets (29 per cent) included the signature against one of the eligibility criteria, but the 'completed by' and 'checked by' sections were incomplete.

4.9 The technical assessment sheet, primarily used to document the proposed project's merit assessment (against the prioritisation criteria), also provided for assessment against the eligibility criteria. While all technical assessment sheets were signed by the departmental officer that had completed and reviewed the sheets, 12 (32 per cent) did not include an assessment against the eligibility criteria. The absence of appropriate endorsement of the preliminary assessment sheets and the non-completion of eligibility assessments on a significant proportion of the technical assessment sheets reduces the level of assurance over the eligibility assessment process.

4.10 Further, the approach adopted by the department to assess the eligibility of Planning Component applications was inconsistent with the processes established in the program guidelines. The program guidelines divided eligibility into applicant and project eligibility, however, the eligibility sheets only provided for an assessment of the *applicant* eligibility criteria. No assessments of *project* eligibility were documented.⁸¹

4.11 There were also circumstances where the eligibility requirements were applied flexibly, for example, in relation to whether applicants could apply for funding individually or as a consortium. While the eligibility criteria explicitly precluded applicants from applying both individually and as a consortium/regional grouping, applications were submitted by individual local government authorities that were also part of a consortium in other applications. For their individual applications to remain eligible, the department required that the local government authorities withdraw from the consortium or remain in the consortium and provide advice that they would not benefit financially from that project. This occurred for five projects.

81 In the Evaluation Guidelines, only the applicant eligibility criteria are provided.

Round 2

4.12 The eligibility criteria for Round 2 of the Planning Component were condensed, and the requirement for projects to be completed by a specific date was added as an additional criterion.⁸²

4.13 The department revised the Planning Component Assessment Guidelines in June 2010 for the second funding round and improved its processes and documentation for assessing eligibility. These improvements included the implementation of a:

- 'receipt of application summary and checklist', to record the relevant details of the application and ensure a consistent process was adopted; and
- revised 'project eligibility/suitability checklist' to be used to determine if the application was sufficiently complete to assess and whether it was eligible. It included assessment against all applicant and project eligibility criteria, as outlined in the program guidelines.⁸³

4.14 In Planning Component Round 2, the project eligibility/suitability checklist was completed, signed and dated for the 35 applications received, and all applications were deemed eligible. However, the subsequent merit review also tested eligibility and reassessed two applications as being ineligible. Despite this reassessment, the advice to the decision-maker stated that these projects were eligible, but did not sufficiently meet the prioritisation criteria to be recommended for funding.

Water Saving Initiatives Component

Round 1

4.15 The eligibility criteria for the Water Saving Initiatives Component Round 1 included: the location of the project; total costs of the project; that the project support the town's long-term water plans; and a completion date. As discussed previously, the program guidelines contained eligibility requirements in addition to those listed in the guidelines under the relevant heading.

82 In Planning Component Round 1, this criterion was that projects be completed within 24 months of approval and was included in the text of the guidelines, not in the listing of eligibility requirements.

83 However, this revised checklist did not include additional requirements which were included in the text of the guidelines, but not listed under the heading 'eligibility'.

4.16 The evaluation guidelines for Round 1 included summary and technical assessment templates, which were to be used to document the assessment process. These templates were designed to capture all relevant information and to support an accountable and transparent process. However, the preliminary assessment and summary assessment sheets were not retained by the department for the assessment of Round 1 applications. The technical assessment sheets were the only documents retained to evidence the eligibility review. These sheets, however, were not completed by each member of the panel and as a result it is unclear whether all members of the panel assessed a project's eligibility and whether the eligibility assessment occurred separately from the merit assessment process. Additionally, some of the technical assessment sheets completed for each application did not clearly identify the departmental officer that performed the assessment.⁸⁴

4.17 Of the 22 applications received for Round 1, five were assessed by the department as ineligible. One application was ineligible because the project was not located within the Murray–Darling Basin (Criterion 1). The remaining four ineligible projects were assessed as either increasing the net extraction of water from the environment, or seeking funding for standard operating and maintenance costs (activities that were classified as ineligible for funding).

4.18 The documentation retained by the department did not clearly demonstrate whether the assessment of eligibility for Water Saving Initiatives Component applications was a separate process or whether it was undertaken in parallel with the merit assessment. However, all Round 1 projects were merit assessed irrespective of eligibility. The department informed the ANAO that this approach was adopted to avoid the assessment panel having to reconvene if their eligibility assessments were challenged.

Round 2

4.19 Environment received 37 applications for Round 2, with all assessed as eligible. As in Round 1, the eligibility assessments were undertaken by departmental officers.

⁸⁴ Each application had four technical assessments completed and retained, with each of the four member panel assessing each application. For each application, of the four assessments completed, two were not signed by the assessor, nor was the assessor otherwise identified. One assessor signed their assessment, however, the signature was illegible and the officer was not otherwise identified. The final technical assessment was signed and the officer was identified.

4.20 The evaluation guidelines for Round 2 were updated in August 2010.⁸⁵ Modifications to the process implemented in Round 2 included improved documentation processes through a standardised assessment document, the ‘Project Eligibility/Suitability Checklist,’ which was retained by the department. The use of standardised documents and retention of completed documentation enhanced the transparency of the assessment process.

4.21 There were several changes to the eligibility and program criteria for Round 2, including the requirement for the applicant to contribute 50 per cent of total project costs moving from under the ‘eligibility’ heading to within the guidelines text, and the addition of the requirement, that this contribution be in cash. However, the requirements outlined in the program guidelines and the ‘Project Eligibility/Suitability Checklist’ for Round 2 were inconsistent with the criteria provided within the evaluation guidelines, particularly with regard to the composition and size of the applicants’ contribution to total project costs. In Round 2, the program guidelines stipulated that the 50 per cent contribution was to be provided in cash, and that in-kind support in addition to this was expected. The lack of consistency between the evaluation guidelines and the program guidelines, shown in Table 4.2, increased the potential for variations in the assessment of applications.

Table 4.2: Differences in Water Saving Initiatives Component Round 2 assessment documents

Document	Requirement	Audience
Program guidelines	Have total costs of at least \$500 000 with the minimum Australian Government contribution of \$250 000 (eligibility requirement)	General public
	Applicants are required to contribute a minimum of 50 per cent of the total project value in cash (additional requirement)	
Evaluation Guidelines	Proposed project must have costs of at least \$500 000, with at least a 50 per cent contribution provided or obtained by the proponent	Departmental officers
Project Eligibility/Suitability Checklist	Are the costs of the project at least \$500 000	Departmental officers

Source: ANAO analysis of departmental information.

⁸⁵ This was after the call for applications (20 July 2010), but before applications closed in September 2010.

4.22 In contrast to the department's assessments, the ANAO found four applications that did not meet the eligibility requirement that the applicant contribute at least 50 per cent of the total project cost. These applications proceeded to merit assessment, resulting in the department spending \$12 709 on technical assessments for projects that were ineligible for funding. In any event, although they were reported as eligible in the Ministerial brief, they rated poorly in the merit assessment, and were not funded under the program.

4.23 The department's amendment of the eligibility requirements between rounds to stipulate that the 50 per cent contribution must be in cash was not included in the information provided on its website regarding the changes to criteria between rounds. The ANAO found an additional seven projects provided funding for 50 per cent of the project costs through a mix of cash, third party contributions and in-kind support. These projects received in-principle recommendations for funding, despite being ineligible according to the requirements of the program guidelines.⁸⁶

Merit assessment of applications

Assessment panels for merit assessment

4.24 The merit assessment of both rounds of the Planning Component was undertaken by a panel of departmental officers. The Water Saving Initiatives Component Round 1 merit assessments were also undertaken by a panel of three departmental staff as well as one externally sourced technical advisor (an engineer who was a senior employee of a utility company). The technical advisor was appointed as the panel identified that, without support, it had insufficient technical knowledge to undertake the assessments. Because of the short time frame between the recognition that this knowledge was required and the assessment process commencing, the advisor was engaged by the department through a personal contact as a 'professional favour'. The department informed the ANAO that the advisor was not remunerated for their work. For Round 2 of the Water Saving Initiatives Component, the

86 While all seven applications were recommended and approved for in-principle funding, only six accepted the offer of funding.

department engaged (through a tender process) a number of consultant firms to provide technical advice in relation to the applications.⁸⁷

4.25 After receiving tender proposals from consultant firms, Environment determined that, based on the information provided, no single provider would have been able to complete the initial technical assessment of all applications in a timely manner. There was also potential for firms to identify some applications for which they had a conflict of interest. The department sought to overcome these issues by engaging three firms. The total cost of technical assessments was \$272 000.⁸⁸ Individual assessment costs ranged from \$2029 to \$18 143, with two companies providing services at a cost of between \$2000 to \$5000 per assessment, and the other charging between \$10 000 and \$18 200 per assessment. Assessors used a common template, and generated assessments of similar quality, despite the large variance in the cost of assessments across assessors. Nonetheless, given the constraint of a condensed timeframe, the department advised that it considered the price differentiation acceptable. The quality of initial applications and the subsequent provision of additional information meant that some applications required reassessment, which increased the cost of the assessment process.

4.26 There is merit in the use of technical expertise to assist in assessing projects, particularly where an agency identifies that the required knowledge is not available internally. However, to achieve value for money from this process and to reduce the need for re-work over multiple submissions of the same application, the role that these assessments will play, and the documentation needed to be provided by applicants to facilitate a technical review, should be identified early in the program design process.

Assessment of applications for merit

4.27 Following the eligibility assessment, each application was to be assessed for merit. Planning Component applications were assessed against prioritisation criteria, whereas Water Saving Initiatives Component applications were

87 This advice was provided during: the initial assessment of all eligible applications; the subsequent assessment when additional information was provided as part of the in-principle funding process (discussed in more detail in paragraph 4.53); and the assessment of information provided by grant recipients subject to the 'staged activation' clause of the funding agreement (discussed in more detail in paragraph 5.13).

88 This amount includes the technical assessments of: all applications (initial); the information provided as a part of the in-principle process; and projects subject to 'staged activation'.

assessed against merit criteria. Table 4.3 provides a summary of the outcomes of the assessment and selection process for both rounds and components.

Table 4.3: Summary of the outcomes of the assessment and selection process for both rounds and components

	Planning Component Round 1	Planning Component Round 2	Water Saving Initiatives Component Round 1	Water Saving Initiatives Component Round 2	Total
Applications received	39	35	22	37	133
Applications withdrawn during assessment	1	0	0	0	1
Application merged during assessment	0	0	2	0	2
Applications marked as ineligible in Ministerial correspondence	1	0	5	0	6
Applications reassessed as ineligible by the department or ANAO (but not marked as so in Ministerial correspondence)	0	2	0	11	13
Eligible applications not recommended for funding	0	9	4	14 ⁽¹⁾	27
Applications recommended for funding	37	26	12	24	99
Offers declined	0	1	0	4	5

Source: ANAO analysis of departmental information.

Note 1: One application was separated into two parts with one part recommended and one part not recommended for funding.

Assessment of applications for the Planning Component

Round 1 applications

4.28 The program guidelines for both rounds of the Planning Component outlined the following four prioritisation criteria, against which the eligible applications were to be assessed:

- forecast impact of climate change;
- extent of water dependent industries;
- population; and
- quality of proposal and value for money.

4.29 While the program guidelines did not outline how the assessment process would be undertaken, this was explained in the internal evaluation

guidelines. Applications were to be assessed on a scale of one to five against each criteria, with all applications scoring two or below for any of the criteria to be reviewed by an additional assessor. The criteria were not weighted, but to be recommended for funding, applicants were required to score a minimum of three for all prioritisation criteria. As outlined earlier, the use of this threshold was not foreshadowed in the program guidelines.

4.30 The assessment for Round 1 applications was recorded on a 'technical assessment sheet.' The sheet consisted of a series of questions against each prioritisation criteria—to assist the assessor in their interpretation and scoring—and the assessor's summary recommendation as to whether the project should receive funding. A separate one page summary sheet was used to record general details about the application and applicant, and the assessment scores. A revised assessment scoring sheet was developed for Round 2 to include sections for assessors to record comments about the relative strengths and weaknesses of the application.

4.31 Once the individual assessments were completed, an assessment review was to be undertaken by the Project Manager, involving an 'analysis of assessment procedures and the consistency of the assessment process in addition to seeking clarification as required regarding those applicants recommended for funding'. At the conclusion of this review, the Project Manager prepared a final assessment report and provided it to the Program Sponsor, who then forwarded recommendations for funding to the Minister for approval.

4.32 Departmental officers assessed all 37 eligible Round 1 applications against the prioritisation criteria. There were no applications that received a score of two or below for any of the criteria, an outcome that would have triggered a peer review. The assessment panel, chaired by the Project Manager, provided a report of the assessment to the Program Sponsor recommending the 37 applicants for funding. This report was approved and forwarded to the Minister for Climate Change and Water.

Round 2 applications

4.33 Thirty-five applications were received for Round 2, with all determined to be eligible for assessment against the prioritisation criteria. Nine applications were assessed as not meeting one or more of the prioritisation criteria as they did not score at least three out of five on all criteria (two of these applications were later reassessed as ineligible during the

merit assessment). The remaining 26 applications were assessed as meeting all four of the prioritisation criteria.

4.34 As the threshold was an additional requirement that was not included in the program guidelines, the ANAO tested the scores of unsuccessful applicants to determine the extent to which this additional requirement affected the outcomes of the assessment process. In each round, the applications that were not recommended for funding did not receive a total score higher than that of a recommended application. This analysis indicates that if an application was poorly rated against one criterion, this generally reflected a poor performance overall.

4.35 The Planning Component application merit assessments across both rounds were relatively well documented, with the assessment sheets signed and retained. However, the department did not retain evidence of the discussions, reviews and meetings of departmental officers undertaken to moderate the assessment scores of applications.

Assessment of applications for the Water Saving Initiatives Component

4.36 Applications for both rounds of the Water Saving Initiatives Component were assessed against the following five merit criteria:

- level of contribution to water security by reducing overall demand for potable water within the water supply area;
- technically sound and able to deliver the proposed outcomes with a high degree of certainty;
- value for money;
- net environmental and social benefits and/or impacts; and
- likelihood of completion within the funding period.

However, similar to the Planning Component, the merit assessment process for the Water Saving Initiatives Component was not outlined in the program guidelines for either round, but was included in the evaluation guidelines. Applicants were also required to score a minimum of three out of five for all merit criteria. In an outcome similar to its analysis of the Planning Component, the ANAO found that the application of thresholds against individual merit criteria did not disqualify any projects for funding that had scored higher overall than a funded project. However, across both rounds and components, the application of the threshold resulted in 27 projects which would have otherwise been eligible for funding not being recommended.

4.37 The evaluation guidelines for the Water Saving Initiatives Component established the documentation requirements for the application assessment process. These included a:

- summary, encompassing the key details of the project;
- preliminary assessment, where the completeness and eligibility assessments of the project were to be recorded; and
- technical assessment, which recorded the assessors' evaluations against the eligibility and merit criteria.

Round 1 applications

4.38 In Round 1, 22 applications were received.⁸⁹ Nine applications were not recommended for funding because the department considered that they were either ineligible (five), did not sufficiently meet the merit criteria or did not represent a proper use of public funds (four). The remaining 12 applications were recommended to the Minister for Climate Change and Water for funding approval.

4.39 The department retained, for each of the 21 assessed Round 1 applications, the technical assessment sheet completed by each assessor (three departmental officers and an external technical advisor). It did not, however, retain documentation to demonstrate the method used to determine the final score for each application. The department subsequently informed the ANAO that the scores of the four assessors were averaged to determine the score included in the brief to the decision-maker.

Round 2 applications

4.40 In Round 2, each of the 37 applications was assessed by a technical advisor who provided a review of the technical aspects of the project application. This report was an input to the assessment that was undertaken by a departmental officer, which was subsequently peer reviewed by another departmental officer. Of the 37 applications received and assessed, 14 applications⁹⁰ were not recommended to the Minister for funding because they scored two or less out of five against one or more of the criteria.

89 Two applications were merged before the merit assessment was undertaken.

90 One application was separated into two parts, with one part recommended and one part not recommended for funding.

4.41 For the remaining 24 applications, the department's merit assessment identified that, while the applications provided sufficient information required to address the merit criteria, they did not sufficiently describe the proposed project. On this basis, the department recommended that the Minister approve these applications on an in-principle basis, pending further information. This issue is discussed in further detail in paragraph 4.53.

4.42 The assessment process for Round 2 was better documented than that for Round 1, with eligibility, technical and departmental assessments recorded on each applicant's file. However, changes to the departmental assessment resulting from the peer review cannot be determined, as the department did not retain copies of the original assessments.

Modification of projects in the assessment of merit

4.43 In the merit assessment process, there were several instances where the department had either grouped or separated milestones suggested by the applicant, or modified suggested timeframes between the application and the draft funding agreement. Where this had taken place, the department did not retain correspondence documenting the discussion of these changes, despite the department's acknowledgement that by changing the timeframes suggested by the applicant it was also implicitly changing the budget.

4.44 There were also three instances where the department significantly modified the proposed project by recommending funding for only part of the proposed activities. Partial recommendations were made where the department determined that aspects of a project were ineligible for funding, represented poor value for money or were standard operational and maintenance activities. For two projects, the decision to provide partial project funding resulted in the final projects no longer meeting the minimum threshold for funding, which was an eligibility criterion. In its advice to the Minister on this matter, the department stated that:

These projects were considered eligible based on their original applications, so regardless of the reduced project costs as recommended by the evaluation panel, are still considered to be eligible.

4.45 The option of partial project funding was not foreshadowed in the program guidelines and, consequently, the process to determine a partial offer was not established.

Risks to granting activity

4.46 A risk highlighted by the CCGs is the possibility of ‘cost shifting’ or ‘substitution of effort’ between different levels of government.⁹¹ All levels of government have a role in managing water usage issues in the Murray–Darling Basin, which increases the potential for this risk to be realised.

4.47 The CCGs recommend that agencies should seek assurances that grant funds will not be used to fund activities that would normally be funded by a state, territory or local government.⁹² The application form for Round 1 of both components did not include a requirement for applicants to confirm whether the project for which they were seeking funding had been funded by any other grant programs. However, in Round 2 (both components), the form required applicants to confirm whether they had sought or received funding from any other Commonwealth grants program for this project. A broadening of this question would have better placed the department to identify whether applicants had received funding from state, territory or local governments, as well as that from Federal programs.

4.48 Integrated Water Cycle Management (IWCM) plans are requirements under the New South Wales *Local Government Act 1993* and the New South Wales Office of Water’s Best Practice Management of Water Supply and Sewerage Guidelines. A departmental minute to the Project Sponsor noted that several Planning Component Round 2 applicants were attempting to transfer the cost obligation of these plans to the Commonwealth, despite their funding through the New South Wales Office of Water. On review, the department found four Round 1 Planning Component applications included IWCM plans. It then recommended to the Project Sponsor that SBCP funding remain available for this purpose in Round 2.

4.49 To better position Environment to monitor and manage the risk of cost shifting, there would be benefit in the department reviewing program requirements to help to ensure full disclosure of other government funding, at all levels, is provided in grant applications and subsequent reporting.

91 Department of Finance, *Commonwealth Grant Guidelines: Policies and Principles for Grants Administration*, July 2009, Canberra, p. 31.

92 *ibid.*

Advice to the decision-maker

4.50 Once the assessment process was completed, assessment reports (for the Planning Component) or briefing papers (for the Water Saving Initiatives Component) were prepared for each round and were provided to the Project Sponsor who then forwarded recommendations for funding to the relevant Minister for approval.

4.51 The reports and briefing papers contained a range of information to support the Minister's decision. This included advice regarding the Minister's obligations under the CGGs, in particular, regarding the provisions of the *Financial Management and Accountability Act 1997* (FMA Act) that require decisions regarding the expenditure of public money to be an efficient, effective and ethical. The department supported its recommendations with:

- a copy of the relevant program guidelines;
- an outline of the eligibility and merit/prioritisation criteria used to assess the applicants (including the use of thresholds);
- the outcome of each projects' eligibility assessment;
- each project's score against each prioritisation or merit criterion, which was presented in a spreadsheet. For both rounds of the Planning Component and Round 1 of the Water Saving Initiatives Component no additional information regarding the application assessment for recommended projects was provided. However, Water Saving Initiatives Component Round 2 included, for each project, an assessment summary that incorporated an expanded project summary, general comment about the application and a review of the strengths and weaknesses of the application;
- a short description of the project (one sentence);
- the funding requested; and
- the department's assessment of whether funding of the project would be consistent with the CGGs, and an effective and efficient use of public money.

4.52 Environment recommended that the Minister for Climate Change and Water approve funding for 37 projects in Round 1 of the Planning Component, and the Minister for Sustainability, Environment, Water, Population and Communities approve 26 projects in Round 2. The relevant Minister approved

all recommended Planning Component projects for both rounds without change.

4.53 In Round 1 of the Water Saving Initiatives Component, the Minister for Climate Change and Water endorsed the department's recommendation to fund 12 projects. As outlined in paragraph 4.41, the Ministerial Briefing for the Water Saving Initiatives Round 2 recommended to the Minister for Sustainability, Environment, Water, Population and Communities that 24 projects receive funding offers in-principle. This approach was adopted because the department considered that the applications provided information required to address the merit criteria, but did not sufficiently describe the proposed projects. The department recommended that the decision to offer grant funding be made, once these issues were satisfactorily resolved, by the department. The Minister accepted this recommendation.⁹³

4.54 The governance arrangements (described in Chapter 3) stated that the Project Board should review significant decisions before they were presented to the Minister. The department did not, however, record the Project Board's consideration of the potential risks that would result from making in-principle recommendations to the Minister, nor was evidence retained to indicate that the decision to do so was endorsed by the Project Board. The Project Board was subsequently advised of the adoption of this approach.

4.55 In order to move from an in-principle offer to an approval to negotiate a funding agreement, the department sought a range of documents from applicants, with some commonality across these requests including:

- all applicants were asked to provide a risk management plan;
- 21 applicants (88 per cent) were asked to provide finalised detailed design and budget documentation;
- 19 applicants (79 per cent) were asked to provide any relevant planning or environmental approvals;
- eight applicants (33 per cent) were asked to provide details on how the proposed water use reduction would be monitored; and

⁹³ This approach was, however, inconsistent with the program guidelines, which stated that the department would make recommendations to the Minister for funding decisions. Further, the department's advice to the Minister did not raise the potential risks of this approach, such as delays to the signing of funding agreements and, as a result, the timeframe for the completion of projects, a risk that was realised.

- six applicants (25 per cent) were asked to provide details of the ongoing operating and maintenance costs of the project's infrastructure for the next 20 years.

4.56 The submission of incomplete applications contrasted with the requirements set out in the application form and program guidelines, including:

- the application form required a project risk assessment and management strategy (although not specifically a risk management plan) be provided;
- the application form required the provision of financial and budget information, including attaching a detailed budget and project plan;
- the program guidelines stated that 'no payment will be made until the proposed project gains all necessary approvals under environmental assessment and planning legislation and policies in the jurisdictions within which they are proposed'⁹⁴; and
- eligibility criterion four required applicants to describe how progress in achieving the objectives of the project would be monitored and how they would assess the longer term impacts of the project once it is completed and outline any post project review processes that may be required.

4.57 Given these requirements, it is reasonable to expect that this information should have been supplied in the initial applications. The consistent shortfall in information provided by Water Saving Initiatives Component Round 2 applicants indicates that there was scope for greater clarity in the information initially sought from applicants.

Advice to applicants

4.58 All successful and unsuccessful applicants from all rounds received a letter informing them of the outcome of the assessment process. Successful applicants also received an email from the department, containing the funding agreement template and guidance on the negotiation process and timeframes.

4.59 The letters provided to successful applicants, however, did not advise them of the amount of grant funding that had been approved by the Minister.

⁹⁴ Department of the Environment, *Water Saving Initiatives Component Round 2 Guidelines*, 2010, p. 12.

Where projects were approved in part, notification included information on the project components that had been funded, but did not provide the funding level.

4.60 The letters to unsuccessful applicants did not include specific information to explain why their application had been unsuccessful. It encouraged applicants to contact the department for further information and advice. There was no evidence retained by the department to indicate that any unsuccessful applicants contacted the department for feedback.

4.61 There is scope for the department to expand the information provided to both successful and unsuccessful applicants seeking grant funding to avoid any potential misunderstanding about the nature of the offer, such as described in the case study on the following page.

Case Study**Partial funding of a Water Saving Initiatives Round 2 project**

A local government authority sought funding for a project of two parts: raising its dam wall and undertaking water adaptation initiatives, with a total project cost of \$2 million. The department's assessment of the application concluded that, as the increase in the dam wall would result in a net increase in water extraction, this component of the project was ineligible. The department approved the proposal for the water adaptation initiatives and the authority received an in-principle funding offer to undertake this aspect of its proposed project. In the letter regarding this offer, dated 24 February 2011, the department did not clearly advise the authority that only one part of its proposal had received in principle support and that the other part would not receive any funding. The subsequent email sent by the department on 3 March 2011 provided further detail as to the elements of the authority's application that were recommended for funding in-principle, but neither communication included the amount of the grant being offered.

The authority engaged a consultant at a cost of approximately \$8500 to assist it to prepare the documentation required to move from the in-principle funding offer to a formal funding offer. This information was provided to the department and it was accepted on 16 August 2011.

The department had commenced preparation of the formal funding agreement when, on 24 August 2011, it became aware that the authority had not identified any cash contributions in the project's budget. The budget provided in the original application had allocated all of the authority's cash contributions to the raising of the dam wall, the element of the project deemed ineligible by the department. The department did not clearly communicate that this meant this project element was outside of the project scope, and should no longer be included in the project budget. The authority had assumed that the department's offer of funding for the remaining project elements was an acceptance of the budget given in the application, and that the grant would be for the total costs of the water adaptation initiatives. The authority determined that, as it was providing over 50 per cent of project costs by funding the dam wall construction, it did not need to contribute any funds to the water adaptation initiatives.

On 25 August 2011, the department advised that, in order to proceed with funding agreement negotiations, the authority would be required to allocate a cash contribution to match the \$2 800 000 grant the department was providing for the water adaptation initiatives. The authority advised the department that, as all available funds were allocated to the element of the project that did not receive Commonwealth support (raising the dam wall), it could not provide additional money to support the 50 per cent contribution to the water adaption initiatives. As a result the authority withdrew its application.

The authority requested that the department reimburse consultancy costs incurred as a result of preparing the information required to secure a formal funding offer. In response, the department advised the authority that, in accordance with the program guidelines, projects would only be funded from the date of execution of a funding agreement. Activities that occurred before execution would not be funded.

Source: ANAO analysis of departmental information.

Decision review process

4.62 The program guidelines for Planning Component Round 1 and 2, and Water Saving Initiatives Round 1 did not outline a process for applicants to appeal funding decisions or request a review of the decision. The Water Saving Initiatives Round 2 program guidelines advised applicants to first seek

feedback from the Program Manager⁹⁵, and if they were not satisfied with the response, to lodge a complaint with the Commonwealth Ombudsman.

4.63 One applicant for Water Saving Initiative Round 2, when advised that the department considered that part of their project was ineligible for funding, sought a review of the eligibility assessment. The department responded that there were no processes for the review of decisions made under the program. While the department was correct in informing the applicant that the criteria for eligibility could not be changed from those included in the program guidelines, there was scope to review the department's assessment of applicant eligibility. In addition to providing an internal review of assessment decisions, the department should have referred the applicant to the advice included in the program guidelines that a complaint could be lodged with the Commonwealth Ombudsman if, after a departmental review, the applicant was not satisfied.

Grant reporting

4.64 The CGGs outline the public reporting requirements the Minister and department must follow to assist in the transparent and accountable management of grants.

Disclosure of electorate information

4.65 A decision to award grants within a Minister's own electorate is within the remit of the responsible Minister, however, when this occurs, and the Minister is a member of the House of Representatives, they are required to write to the Finance Minister advising the details of the grant funding.⁹⁶ As the former Minister for Climate Change and Water was a senator for South Australia, this provision of the CGGs did not apply. Also, no grants were awarded to recipients within the former Minister for Sustainability, Environment, Water, Population and Communities' electorate.⁹⁷

Website reporting of successful grant recipients

4.66 According to the CGGs 'An agency *must* publish, on its website, information on its individual grants no later than seven working days after the

95 The terms Program Manager and Project Manager were used interchangeably. An overview of the governance arrangements for the SBCP is provided in Chapter 3.

96 Department of Finance, *Commonwealth Grant Guidelines: Policies and Principles for Grants Administration*, July 2009, Canberra, p. 10.

97 Watson is located in the inner metropolitan area of Sydney, outside of the Murray–Darling Basin.

funding agreement for the grant takes effect [original emphasis].⁹⁸ Environment published information on projects that were supported under the SBCP on its website. The department reported to the Senate Standing Committee on Environment and Communications Legislation that it had reviewed its compliance with this requirement in 2011–12 and one SBCP grant had not been reported within the specified timeframe.

Conclusion

4.67 Environment received 74 applications for the Planning Component and 59 for the Water Saving Initiatives Component of the SBCP, with 72 and 53 projects, respectively, assessed as eligible. The department recommended 63 Planning Component and 36 Water Saving Initiatives Component projects with a total value of \$81.7 million to the Minister for approval, including 24 projects recommended for in-principle approval. The Ministers approved the department's recommendations without change.

4.68 The SBCP program guidelines outlined the criteria to be used to assess eligibility for program funding. The applicant and project eligibility assessment process established for the SBCP was, however, made more difficult by a lack of clarity regarding eligibility requirements. As a consequence, over both components and rounds, 13 of the department's eligibility assessments of projects were later found to be incorrect. In seven cases, projects that did not strictly meet all of the eligibility criteria were recommended for in-principle funding.⁹⁹

4.69 While the department created and retained a broad range of documentation to evidence the assessment and selection process, some aspects of the process were not sufficiently documented to support an accountable and transparent process, particularly in relation to the deliberations of the panels and moderation of individual assessments. There was, however, an improvement in the documentation retained by the department for the assessment of Round 2 applications.

98 Department of Finance, *Commonwealth Grant Guidelines: Policies and Principles for Grants Administration*, July 2009, Canberra, p. 12. Under the second edition of the CGGs, this requirement has changed to 'no longer than 14 working days after the grant agreement for the grant takes effect.' Department of Finance, *Commonwealth Grant Guidelines (2nd edition)*, June 2013, Canberra, p. 27.

99 Six of these applicants accepted the funding offer.

4.70 Environment’s recommendation to the decision-maker—the Minister— included relevant information on the financial management framework requirements and an overview of the assessment and selection process. The recommendation of some applicants for funding on an in-principle basis was, however, an unusual approach given that assessors generally rely on all relevant information being available in order to undertake a proper assessment of applications. Further information was required for all Round 2 applications indicating that there was scope for greater clarity in the information to be provided as a part of the application process.¹⁰⁰

4.71 Although all applicants were notified of the outcome of their applications, the department could have provided more fulsome information to unsuccessful applicants regarding the outcomes of their assessment and for successful applicants, the nature of the funding offer. In several cases the department offered partial funding or altered the scope of the proposed project. The project guidelines did not outline the potential for the department to reduce funding or alter the scope of projects, and details regarding these changes made to projects were not sufficiently communicated to the applicants.

Recommendation No.2

4.72 Consistent with the transparency and public accountability principles of grants administration, the ANAO recommends that the Department of the Environment reinforces the importance of:

- establishing and applying clear eligibility requirements in program guidelines; and
- appropriately documenting decisions relating to the assessment and selection of applications.

4.73 **Environment’s response:** *Agreed*

¹⁰⁰ The department did, however, ensure that the required information was provided prior to its final approval and subsequent endorsement of funding agreements.

5. Negotiation and Management of Funding Agreements

This chapter examines the negotiation and ongoing management of Strengthening Basin Communities Program funding agreements, and the reported outcomes of the program.

Introduction

5.1 The program guidelines for both the Planning and Water Saving Initiatives Components stated that, to receive funding, successful applicants would be required to enter into funding agreements with the Commonwealth. Recommendations to the relevant Minister included 24 applications for the Water Saving Initiatives Component Round 2 where in-principle approval was sought, subject to the applicant providing further project information. The information included in each application, and the further information provided by applicants, was used by the department to inform the preparation of funding agreements.

5.2 The ANAO examined the department's processes for the:

- negotiation of the funding agreements;
- management of funding agreements, including the use of variations and terminations;
- monitoring compliance with funding agreements;
- making of payments; and
- the outcomes of SBCP projects as reported in final reports.

Negotiation of funding agreements

5.3 As discussed in Chapter 2, sample funding agreements were provided on the department's website, but only during the application period for the second round of each component. The program guidelines for both components outlined a compressed timeframe for the signing of funding agreements, particularly given that, for Round 1, the terms for the agreement

were not available for review before the funding offer. The funding agreement negotiation timeframes were under pressure from the outset.¹⁰¹

Planning Component

5.4 In the first round of the Planning Component, all 37 applicants that were offered a grant accepted. In Round 2, 25 of the 26 applicants offered funding accepted the offer and signed a funding agreement with the Commonwealth.¹⁰²

5.5 The date given in the program guidelines for the notification of outcomes of the Planning Component Round 1 was October 2009. While the Minister's endorsement of the department's funding recommendations occurred on 12 October 2009 the department advised the ANAO that, in consultation with the Minister, it was decided that that formal offers would not be forwarded to successful applicants for a further 46 days so that the Minister could return from an overseas engagement to announce the successful applicants. In the letters of offer, dated 27 November 2009, the department requested that signed funding agreements be returned within a fortnight. In effect, however, the average timeframe between the Minister's approval and the signing of funding agreements was approximately 80 days.¹⁰³

5.6 For Planning Component Round 2, program guidelines indicated that the Minister would announce successful applicants in August 2010, and that agreements should commence in September 2010. Environment provided its recommendations to the Minister on 20 September 2010, and the Minister's decision was returned to the department on 5 November 2010. Emailed offers of funding were forwarded to successful applicants on 10 November 2010. Ten agreements were signed within the period set out in the letter of offer (60 days). The remaining 15 agreements took an average of 90 days to negotiate and sign.

101 Each Component and each funding round had a different timeframe for the negotiation of funding agreements outlined in their program guidelines. These are provided in Appendix 3.

102 While the remaining applicant originally accepted the offer, it later chose not to enter into a funding agreement with the Commonwealth.

103 A new funding agreement with one recipient was endorsed in June 2010 because the original had been signed by an unincorporated entity. Under the program guidelines, only incorporated entities could enter into funding agreements with the Commonwealth. This funding agreement was not included in the analysis used to determine the time taken to endorse funding agreements.

Water Saving Initiatives Component

5.7 The Minister announced grant funding for the 12 successful Water Saving Initiatives Component Round 1 applicants in March 2010, and in-principle funding for 24 Round 2 applicants on 24 February 2011.

5.8 The negotiation of funding agreements for Water Saving Initiatives Component Round 1 was also subject to significant delays. While successful grant recipients were announced within the timeframe indicated in the program guidelines (November 2010), only eight (of the 12) funding agreements were signed within this period. It took an average of 78 days from the date of the formal offer of funding to the signing of a funding agreement. In relation to Water Saving Initiatives Component Round 2, it took an average of 127 days to move from the in-principle offer to an agreement to negotiate a funding agreement. It then took an average of a further 62 days to finalise the funding agreements.

Development of funding agreements

5.9 The funding agreements provided to potential grant recipients by the department were based on a departmental template, structured in two parts. All funding agreements included standard clauses in part one relating to the making of payments, the management of funding, taxes, reporting and recordkeeping. The Water Saving Initiatives Component agreements had additional clauses regarding the management of assets acquired under the agreements, compliance with the National Code of Practice for the Construction Industry and Implementation Guidelines and Occupational Health and Safety. The second part of the agreement comprised the schedule, which set out the specific details of the funded project and established the project budget, recipient contributions, milestones and reporting requirements. A subset of funding agreements from Water Saving Initiatives Component Round 2 also had an additional staged activation clause (discussed in paragraph 5.13).

5.10 The timeframe and the activities for each milestone were sourced from the project plan submitted in the grant application. The budget provided in the funding agreement also outlined the cash and in-kind contributions that applicants had nominated that they would contribute in their applications. For Planning Component projects, cash contributions from applicants were encouraged, but were not mandatory. In-kind contributions, such as the grant recipient covering the cost of its representatives attending meetings were,

however, expected. A contribution of at least 50 per cent of the project cost was a requirement for Water Saving Initiatives Component projects.¹⁰⁴ Of the cash contributions nominated by Water Saving Initiatives Component applicants, funds were sourced either directly from the applicant or through business partnerships. For two projects (16 per cent) funded in Round 1, the applicants' 50 per cent contribution included contributions from a third party. This increased to seven projects (29 per cent) in Round 2.¹⁰⁵ The department's decision to require matching funding from applicants was designed to increase grant recipient and community engagement with the proposed projects (as discussed in Chapter 2).

5.11 The ANAO reviewed the project schedule and budget prepared by the department for all funding agreements. It found errors in approximately 10 per cent of agreements (eight) and in one variation. Examples of errors included: internal inconsistencies within the funding agreement regarding the grant recipient contributions to the project; errors in the project budget; and a variation that included tasks from another funded project. Errors that were identified by the department included: a funding agreement that was for an amount \$500 greater than was approved by the Minister (although the agreed amount reflected the funding sought by the grant recipient)¹⁰⁶; and two funding agreements that required changes after signing, one as there was an error in the reporting dates, and the other due to errors with the formatting (but not the contents) of the document.

5.12 All funding agreements were signed by a representative of the funding recipient and a Senior Executive Officer with the appropriate delegation.

Implementation of staged activation

5.13 The department opted to implement a staged activation clause for four of the Water Saving Initiatives Component Round 2 funding agreements. This clause provided the department with the opportunity to re-assess the project for viability after the completion of the first milestone. The department sought internal legal advice regarding the use of a staged activation clause and was

104 In Water Saving Initiatives Component Round 2, this contribution was modified to be provided in cash, in addition to in-kind contributions.

105 This includes one applicant whose 50 per cent contribution was entirely sourced from a third party. Based on the budget given in its application, the applicant made no cash contribution from its own funds.

106 This was rectified through a variation to reduce the offer to the amount approved by the Minister.

informed that, while from a contractual perspective it is possible to draft a funding agreement in such a way, a departure from the program's guidelines was likely to result in issues relating to probity, value for money and compliance with the FMA Act.

5.14 This advice highlighted that the staged activation process provided Commonwealth funding for some (but not all) applicants to complete additional planning, design and proof of concept development for their proposals. This in turn would:

[Affect] the equity of the applicants (as between each other) and the defensibility and transparency of the department's original assessment. It may also impact the value for money evaluation of each application. If some applicants are able to use Commonwealth funds to scope their project and prepare project documentation while others are not, it is likely to give rise to an inequitable situation.

5.15 The advice stated that, if staged activation was not provided for in the program guidelines, it would not be appropriate to take this approach. The provisions for staged activation of funding agreements were not included in the program guidelines or the funding agreement provided on the website prior to applications being submitted. While the department's use of staged activation clauses was included in reports to the Project Board, the department did not retain evidence of the Project Board's consideration and endorsement of this approach. Nor did the department brief the Minister on the potential risks involved in entering into funding agreements with a staged activation clause, despite the internal advice that outlined potential conflicts with the CGGs and the FMA Act.

Management of funding agreements

Project timeframes

5.16 In relation to Planning Component Round 1, the program guidelines stated that projects must be completed within 24 months of approval. The Minister's approval was given on 12 October 2009, which meant that projects would need to be completed within 24 months of that date. The Planning

Round 2 program guidelines included as an eligibility criterion that the applicants' project activities must be completed by 30 June 2012.¹⁰⁷

5.17 In the case of both rounds of the Water Saving Initiatives Component, the project completion date was an eligibility criterion. For Water Saving Initiatives Round 1, the deadline was 30 June 2012, with 30 June 2013 the deadline for Round 2. These dates were not modified despite the extension of the application timeframe (see Chapter 2), nor in response to the extended negotiation period for funding agreements.

5.18 During the assessment of Planning Component projects, departmental officers concluded that funding agreements would 'clearly state that the funding was available for work undertaken within the 24 month period and that the project was to be completed within that time.' However, a significant number of projects exceeded the timeframes recorded in the program guidelines for project completion.¹⁰⁸ For many projects, the eligibility criterion regarding project completion was waived during the initial funding agreement negotiation. In some cases this was through the use of variations, or an exchange of emails and others completed their project outside the eligible period with no documented approval from the department. The management of project variations is examined in more detail in paragraphs 5.29 to 5.34.

5.19 Environment developed an escalation process of reminders and letters—culminating in project termination—to manage project delays that did not have a variation or other acknowledgement from the department. While a number of grant recipients received letters regarding their non-compliance with the funding agreement, as at 30 June 2013, there were no projects that had funding withheld because they had not completed activities within the agreed timeframes.

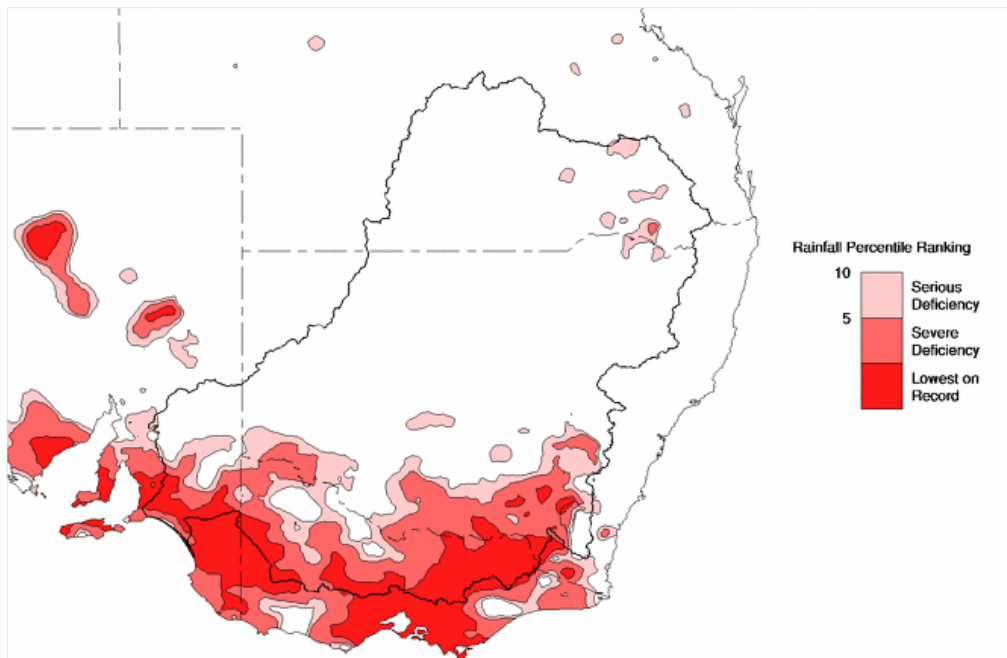
107 In determining whether or not the department had adhered to the 30 June 2012 completion date in managing the funding agreements, the ANAO observed that the specified 'activity period' in funding agreements was inconsistently aligned to milestone dates in the schedule. On some occasions the activity period end date aligned to the date that the final progress report was due, while on others it was aligned to the date the final report was due. On two occasions the end date extended beyond the date the final report was due. This meant that there was no consistent reference for determining when a project's activities were contracted to be completed and, therefore, whether projects were contracted for completion beyond the eligibility requirement of 30 June 2012.

108 For example, in Water Saving Initiatives Component Round 2, the requirement to complete a project by 30 June 2013 was waived during the initial funding agreement negotiation for 47 per cent of projects, for a further 16 per cent it was waived through the use of variations. Overall, 84 per cent of Water Saving Initiatives Component projects have either completed, or are scheduled to complete their project outside of the timeframe provided in the guidelines.

Implications of extreme climatic events on project delivery

5.20 During the period when SBCP projects were being undertaken (2010–2013), the east coast of Australia was subject to variable climatic conditions. As illustrated in Figure 5.1, rainfall in southern Australia, including for much of Victoria and a significant portion of South Australia, was the lowest on record for the period preceding the implementation of the SBCP projects.¹⁰⁹

Figure 5.1: Murray–Darling rainfall deficiencies 2006–2009



Source: Bureau of Meteorology, *Thirty-six-monthly rainfall deficiency for Murray Darling Basin*, (2009) available from <<http://www.bom.gov.au/jsp/awap/rain/archive.jsp?colour=colour&map=drought&period=36month&area=m&year=2009&month=6&day=30>> [accessed 22 July 2013].

5.21 This period of drought was followed by record-breaking rainfall during 2010–11, which led to widespread flooding in many regions between September 2010 and March 2011. As well as severe flooding in southeast Queensland, much of inland southern and far northern Queensland, the majority of New South Wales, northern Victoria, and central Australia experienced flooding at least once between late November 2011 and

109 Bureau of Meteorology, *Thirty-six-monthly rainfall deficiency for Murray–Darling Basin*, 2009, available from <<http://www.bom.gov.au/jsp/awap/rain/archive.jsp?colour=colour&map=drought&period=36month&area=md&year=2009&month=6&day=30>> [accessed 22 July 2013].

March 2012.¹¹⁰ Historical rainfall data demonstrates that, for the SBCP project implementation period, the majority of the Basin experienced higher than average rainfall, including for large areas, highest on record and very much above average rainfall.

5.22 The rainfall affected grant recipients' ability to deliver projects funded under both SBCP components. While the implication of excessive water on the ability to build major infrastructure is apparent, for many local government authorities with limited staff and resources, these extreme conditions also caused the redeployment of staff from planning projects, resulting in further delays.

5.23 Due to climatic conditions, funding recipients sought and were provided extensions to project deadlines. Comments in final reports indicated that funding recipients were grateful to the department for its understanding in response to the extreme weather. Further, funding recipients commented that it was only due to the flexibility of the department in managing funding agreements that the majority of projects were able to be completed.

5.24 The departure from the program guidelines regarding the program timeframes is, however, only partially explained by extreme weather events. In relation to a number of project overruns and one project termination, the delays were the result of difficulty in engaging contractors and in the grant recipient's staffing or contract and project management. In addition, delays in Planning Component projects resulted from some grant recipients waiting for the publication of the draft Murray–Darling Basin Plan to inform their community discussions. Finally, the lengthy period of negotiation between the announcement of successful applicants and the signing of funding agreements (discussed in paragraphs 5.4 to 5.8), also increased the overall timeframe for projects and, in a number of cases, resulted in Water Saving Initiatives Component construction activities being undertaken in unfavourable seasons.

5.25 Project delays have also contributed to increased costs in administering SBCP. The department's original projections outlined that, as all projects were to have completed activities by 30 June 2013, only the finalisation of the program, the assessment of final reports, program evaluations and final payments would need to be completed in the 2013–14 financial year. The

110 Bureau of Meteorology, *Record rainfall and widespread flooding*, 2012, available from <<http://www.bom.gov.au/climate/enso/history/ln-2010-12/rainfall-flooding.shtml>> [accessed 16 July 2013].

extension of these timeframes has required the ongoing deployment of departmental resources to administer milestone reports and payments and finalising projects.

5.26 The department's decision to manage the program timeframes in a flexible manner, while facilitating the completion of projects with the range of benefits that these have provided to those communities, was not widely communicated.

Funding agreement terminations and variations

Terminations

5.27 In total, four SBCP projects have been terminated. One Planning Component project was terminated without receiving funding. For another two projects, the department determined that funding had resulted in a number of discrete and complete reports and plans that contributed to the objectives of the SBCP. However, where flooding prevented the completion of further reports, or where the project had lost support in the community, both parties agreed that it was an appropriate course of action to mutually terminate the project. The department provided \$132 888 in funding, from total agreed funding of \$400 000, to these projects before they were terminated.

5.28 One Water Saving Initiatives Component project was also terminated. This occurred after a number of planning elements had been completed. However, at that point it was determined that the project had been significantly underfunded and was no longer viable. The department provided a payment of \$10 000 against the completed planning elements.

Variations to agreements

5.29 To provide assurance that all parties have a clear understanding of their responsibilities under the funding agreement, particularly where there were subsequent changes to the timeframes or milestone activities of a project, it is important to endorse a variation to the original agreement. There were a number of formal funding agreement variations endorsed over the course of program implementation, with all executed by departmental staff with the appropriate delegation.

5.30 Thirty-two Water Saving Initiatives Component projects and 32 Planning Component projects had at least one formal funding agreement variation, with many having more than one. The frequency of variations

declined in the second round of both components. In relation to Planning Component projects in particular, this reduction reflected a more pragmatic approach instituted by the department where variations that sought a short extension to milestone completion dates (but not the activities undertaken within) were approved without a formal variation.¹¹¹ This approach reduced the number of funding agreement variations, thereby reducing the administrative burden on both parties in negotiation.

5.31 In addition to variations to reflect changes in milestone completion dates and a movement of activities between milestones, there were a number of projects where variations resulted in changes to the scope of the stated project. These variations included pursuing project activities in greater detail and extending planning activities to include additional towns or projects within the original funding offer.

5.32 On the majority of occasions, the request to use SBCP funding to support an extended or changed project scope originated with the grant recipient. However, on at least one occasion, this suggestion originated from within the department.¹¹² As there was no departmental guidance documenting how to manage variations—each was managed on a case-by-case basis—the department was unable to provide evidence that this opportunity was extended to all grant recipients.

5.33 The use of Commonwealth funding to support projects or elements of projects that have not been assessed in accordance with the program guidelines, contributes to reduced transparency in the decision-making process and increases the risk that outcomes do not provide value for money for the Commonwealth. The expansion of funded projects or the addition of new project elements also increases the risk of ineligible activities being funded. There were two instances where the extension to the scope of Planning Component projects provided funding for activities that would not have been considered eligible under the criteria published in the program guidelines. This includes funding of educational materials, signage (safety signs) at infrastructure sites and the development of educational materials and a website.

¹¹¹ This occurred on four occasions.

¹¹² Through an email to one grant recipient, the department stated that the SBCP funds may be used to extend the scope of the project within the 'intent, purpose and spirit of the SBCP program'.

5.34 Proportionality in managing contracts is beneficial for both parties and is supported by the CGGs, which state that the stringency of acquittal procedures should be balanced against the level of risk and take into account the cost of compliance.¹¹³ Where there are variations from the project parameters outlined in the funding agreement, these should be documented through fit-for-purpose communication that provides both parties with a clear understanding of changed requirements. The level of this documentation can range from an exchange of emails to a full funding agreement variations based on a risk assessment of the scale and consequence of the proposed project modifications. The department, however, did not fully document variations to SBCP funding agreements, including a risk assessment supporting them. There would be benefit in the department establishing arrangements for the management of variations and terminations to ensure that they are: appropriately documented; administered within the parameters of the program guidelines; applied equitably and transparently; and achieve value for Commonwealth funding.

Monitoring and compliance

Progress reports

5.35 The funding agreement for the SBCP included the submission of progress reports, audited financial reports and final reports. The number and frequency of progress reports was based on the information provided in the applications and finalised during the negotiation of each funding agreement. The information required to be included in progress reports was set out in a template provided to grant recipients by the department. Progress reports were to be supported with evidence, such as photographs, receipts for payments, as well as draft and final consultants' reports. Audited financial statements were to be submitted within 60 days of the end of each financial year in which the recipient received a grant payment or contributed to the project financially, and at the conclusion of the project. The submission of a progress report and (if required) annual audited financial statements, and their acceptance by departmental project officers, was used to demonstrate completion of milestones, and was for the majority of projects, the basis for a milestone payment.

¹¹³ Department of Finance, *Commonwealth Grant Guidelines: Policies and Principles for Grants Administration*, July 2009, Canberra, pp. 32–33.

5.36 Departmental project officers were in regular contact with grant recipients throughout the implementation of each project and provided assistance to grant recipients to meet reporting obligations.¹¹⁴ Progress reports and audited financial statements were assessed using templates. Where the reports did not meet the department's requirements or were not supported with sufficient evidence, the recipient was required to provide additional material.

5.37 The ANAO analysed the time taken between the submission of invoices for milestone payments (which were generally submitted in conjunction with progress reports), the department's acceptance of the reports and the payment. This analysis indicates that there was often a significant delay between the lodgement of the invoice and the acceptance of the related report, reflecting the time taken for the grant recipients to complete the report to the department's satisfaction and provide the information and supporting evidence required. The payment of the invoice after the acceptance of the report was generally timely.¹¹⁵

5.38 The ANAO provided all grant recipients with the opportunity, through its survey, to rate the difficulty of reporting obligations of the program. The responses received were variable, and were accompanied by the following comments:

While the complexity of reporting may be deemed by some to be onerous, for the quantity of funds being provided the level of detail is justified.

* * *

Report templates were easy to follow and duplicate for subsequent reports.

* * *

The template to record financial information was not very straightforward which led confusion on each occasion it was used.¹¹⁶

114 In addition to receiving and reviewing written reports, departmental officers were in regular telephone and email contact with grant recipients, and undertook site visits to 33 grant recipients to discuss 42 individual SBCP projects. During site visits, project progress and reporting requirements were discussed. Where construction for Water Saving Initiatives Component projects had commenced, departmental officers also visited the work site.

115 For example, the average time between the submission of the invoice and the acceptance of the related report for Planning Component Round 1 was 30 days. The average time between report acceptance and payment was 10 days.

116 Responses from the ANAO survey distributed to 161 potential applicants, including all grant recipients.

5.39 A milestone requirement for each project's final payment was that the grant recipient completed a Final Report. As a part of this report, the department requested that grant recipients comment on the department's overall performance in program management. Eighteen Planning Component grant recipients noted that the reporting requirements were either excessive or difficult (30 per cent). However, the majority of respondents stated that difficulties were overcome with the assistance of departmental officers. The majority of unfavourable comments were provided by funding recipients undertaking projects in the first round of the Planning Component. In Round 2, the department improved its templates, significantly reducing the difficulties experienced with program reporting obligations in Round 1.

5.40 The Final Report for Water Saving Initiatives Component projects was managed differently by the department, with grant recipients offered sample statements and an opportunity to agree or disagree with each. While there was some disagreement with the comment 'financial and audit reporting requirements were unambiguous'¹¹⁷, all respondents strongly agreed with the statement 'ongoing communication with the SBCP project officer was clear and appropriate' and all but one (who moderately agreed) strongly agreed that 'the SBCP program met my organisations' needs.'

Project payments

5.41 The ANAO examined the arrangements established by the department to manage the integrity of project payments. No payments were made prior to a funding agreement being executed and the only payments made without the assessment of a milestone report were those made on the signing of a funding agreement. One project from Water Saving Initiatives Component Round 2 and five projects from Planning Component received an upfront grant payment on signing the funding agreement. The provision of upfront payments was used to assist grant recipients where early payments to contractors were required. All other payments were made upon receipt and acceptance of either a progress report or a financial report.¹¹⁸

¹¹⁷ Seven (54 per cent) grant recipients (with completed projects) who responded to this question moderately agreed and one (nine per cent) did not agree with this statement.

¹¹⁸ If a financial report was due at the same time as a progress report, the milestone payment was not made until both reports had been received and accepted.

5.42 Payments were generally made to the amount agreed in the funding agreement, not the actual cost of completing the milestone. This required the department to reconcile projects that were completed with an underspend through a partial final payment, a waiver for a progress payment or a variation to the funding agreement to reflect the actual cost of the project. For the 69 projects that were completed by 30 June 2013, on five occasions the department overpaid the recipient and was required to recover funds. For one project, the department decided to provide funding at intervals according to the portion of the milestone activities that had been completed, rather than requiring the recipient to fully complete a milestone before payment. This was due to significant flooding in the area preventing full completion of activities. This opportunity was not offered to other grant recipients.

5.43 For Planning Component projects completed by 30 June 2013, the ANAO reviewed the payments provided by the department against the costs presented in audited financial statements. It identified that for approximately 40 per cent of projects (22), the figures entered into the final report did not accurately reflect the audited financial statements.¹¹⁹ Of these projects, the ANAO identified two projects that had been overpaid by the department. The department has subsequently recovered funds from one grant recipient (\$2000) and is currently following up on the other overpayment (approximately \$54 000).

5.44 A lack of clarity in the Final Report assessment template (which included a spreadsheet used by the department to calculate the final project cost) was likely to have contributed to confusion regarding the department's funding for projects, particularly where there was an underspend. For Planning Component projects, this template did not provide sufficient transparency over cash contributions from grant recipients towards their project, nor did it reconcile these contributions with the requirements established in the funding agreement.

5.45 For both components, the department did not have a sufficiently robust process to monitor the grant recipients' in-kind contributions in line with commitments outlined in the funding agreements. In-kind payments were not separately identified in the independently audited financial statements,

¹¹⁹ This percentage includes cases where the final report assessment contained incorrect figures against the spending in specific years, but provided the correct final project costs.

however, they were reported in progress reports and in the unaudited financial information provided annually.

5.46 There would be merit in the department implementing appropriate processes to monitor and reconcile in-kind and cash contributions. Within this context, it would be appropriate for the department to develop and implement a consistent policy regarding the management of projects that are completed with less cash and in-kind contributions from grant recipients than had been committed to in the funding agreements.

Outcomes in final project reports

5.47 The SBCP was designed to assist local government bodies in the Murray–Darling Basin to better plan for climate change and identify local water efficiency measures that meet the needs of communities now and into the future. Grants were provided to local government authorities to support the review of existing plans or the creation of new plans which take into account the risks and implications of climate change; and improvements in urban water security through water savings initiatives what reduce demand on potable water supplies in the Basin.

5.48 All projects funded under the SBCP that were completed by July 2013 were considered by the grant recipient to have been successful. While there were a number of projects that were delayed due to a range of issues, grant recipients considered that the flexibility of the department in managing variations and project extensions allowed them to be completed.

5.49 While the SBCP was conceived in a time of drought, the extreme weather conditions experienced during program implementation were identified by a number of councils as enhancing community awareness of climate change issues and increasing community involvement in discussions about the future, with both positive and negative outcomes.

5.50 As outlined in Chapter 2, there would be merit in the department undertaking an analysis of the information collected in milestone reports and final reports to inform an evaluation of both the outcomes of the SBCP, and its own implementation of the program.

Conclusion

5.51 Environment offered funding agreements to the 99 approved grant applicants, with 94 applicants entering into funding agreements with the

Commonwealth. While the majority of endorsed funding agreements reflected the relevant details of each application and the subsequent departmental amendments, around 10 per cent (eight agreements) and one variation contained errors. Further, the terms and conditions included in a number of agreements were outside the parameters set in the published program guidelines, such as: the use of staged activation of some contracts; the extension of project timeframes; and the requirement for annual audited financial statements. The inclusion of terms and conditions within funding agreements that were inconsistent with the program guidelines increased the risk of inequitable treatment of applicants. Had the more favourable conditions included in the agreements been available in the advertised program guidelines, other potential applicants may have applied.

5.52 Agreement variations were used extensively by the department to account for delays in completing a number of projects. On a number of occasions, the administration of variations was not managed in accordance with the program guidelines, allowing: projects to extend beyond the timeframes required of an eligible project; the use of SBCP funding for elements of projects that were ineligible; and funding to be used for activities that had not been competitively assessed against the merit or prioritisation criteria outlined in the program guidelines. In a number of cases appropriate documentation of the variation was not retained.

5.53 The department established a monitoring program to gain assurance that funded organisations were complying with the obligations established under funding agreements. This included progress reports, audited financial statements, and visits to selected project sites. Grant recipients held mixed views regarding the appropriateness of the monitoring program, with some grant recipients considering the reporting requirements to be either excessive or difficult, while others considered the reporting proportionate to the level of funding being provided. The work of departmental officers in supporting grant recipients throughout program implementation was, however, consistently recognised by funding recipients.

5.54 While progress payments were only authorised once supporting materials had been submitted and approved, there were several cases where incorrect payments have been released. There would be merit in the department strengthening its management of the acquittal of projects, by: documenting the cash and in-kind contributions provided to projects by grant recipients in final report assessments; and reconciling financial information in

the final report assessment with the audited financial statements and the requirements set out in the funding agreement.

Recommendation No.3

5.55 To improve the management of future grant funding agreements, the ANAO recommends that the Department of the Environment:

- retains documentation to support variations to the agreements; and
- strengthens arrangements governing the acquittal of contributions and funding.

5.56 **Environment's response:** *Agreed*



Ian McPhee
Auditor-General

Canberra ACT
30 January 2014

Appendices

Appendix 1: Agency response



Australian Government
Department of the Environment

Dr Steven Kennedy
Acting Secretary

Ms Barbara Cass
Group Executive Director
Australian National Audit Office
GPO BOX 707
Canberra ACT 2601

Dear Ms Cass

Thank you for your letter of 11 December 2013 seeking the Department of the Environment's response to the ANAO's proposed audit report on the 'Administration of the Strengthening Basin Communities Program (SBCP)'.

The Department welcomes the proposed audit report and its findings in relation to the effectiveness of the administration of the SBCP. In response to the report's recommendations, the Department:

- Agrees with audit Recommendation No. 1.
- Agrees with audit Recommendation No. 2.
- Agrees with audit Recommendation No. 3.

The Department notes that the audit has highlighted some areas for improvement in the grants administration process. In particular, we note the need to further improve the transparency and accountability of the grant assessment and selection processes, strengthen the management of funding agreements and more accurately report program performance. The Department has commenced a business improvement program to strengthen our capabilities, including grants administration. We will incorporate actions to give effect to the audit recommendations into this ongoing body of work to further improve our administration of current and future grants programmes.

The Department also acknowledges the positive findings in the report in relation to the programme's design, implementation and outcomes. It is pleasing to note the audit found clear evidence that the Department made a number of improvements to the administration of the programme over its life. Notwithstanding the improvements that have been made, we recognise that there is more to be done to further enhance our effectiveness in grants administration and we are committed to this process.

Thank you for the opportunity to respond to the proposed audit report.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'SK', written over a faint circular stamp.

Dr Steven Kennedy
6 January 2014

Appendix 2: Councils in the Murray–Darling Basin (legend to Figure 2.1)

001 Central Highlands Regional	002 Blackall Tambo Regional	003 Murweh Shire
004 Quilpie Shire	005 South Burnett Regional	006 Roma Regional
007 Dalby Regional	008 Toowoomba Regional	009 Lockyer Valley Regional
010 Bulloo Shire	011 Scenic Rim Regional	012 Paroo Shire
13 Balonne Shire	014 Goondiwindi Regional	015 Southern Downs Regional
016 Tenterfield	017 Moree Plains	018 Inverell
019 Gwydir	020 Glen Innes Severn Shire	021 Brewarrina
022 Walgett	023 Bourke	024 Guyra
025 Narrabri	026 Uralla	027 Armidale Dumaresq
028 Unincorporated	029 Coonamble	030 Tamworth Regional
031 Gunnedah	032 Walcha	033 Warren
034 Warrumbungle	035 Bogan	036 Liverpool Plains
037 Gilgandra	038 Central Darling	039 Cobar
040 Broken Hill	041 Upper Hunter	042 Dubbo
043 Narromine	044 Muswellbrook	045 Mid-Western Regional
046 Singleton	047 Peterborough	048 Parkes
049 Lachlan	050 Cabonne	051 Lithgow
052 Orange	053 Forbes	054 Bathurst Regional
055 Wentworth	056 Blayney	057 Carrathool
058 Goyder	059 Cowra	060 Weddin
061 Oberon	062 Bland	063 Balranald
064 Uia Riverland	065 Clare and Gilbert Valleys	066 Renmark Paringa
067 Young	068 Berri Barmera	069 Boorowa
070 Griffith	071 Hay	072 Temora
073 Light	074 Upper Lachlan Shire	075 Mid Murray
076 Loxton Waikerie	077 Leeton	078 Cootamundra
079 Narrandera	080 Harden	081 Barossa
082 Coolamon	083 Murrumbidgee	084 Junee
085 Murray	086 Mildura	087 Goulburn Mulwaree
088 Adelaide Hills	089 Karoonda East Murray	090 Yass Valley

091 Gundagai	092 Mount Barker	093 Wakool
094 Swan Hill	095 Murray Bridge	096 Conargo
097 Onkaparinga	098 Wagga Wagga	099 Jerilderie
100 Urana	101 Lockhart	102 Alexandrina
103 Southern Mallee	104 Queanbeyan City	105 Palerang
106 Tumut	107 ACT	108 Victor Harbor
109 Yankalilla	110 Deniliquin	111 The Coorong
112 Berrigan	113 Greater Hume	114 Gannawarra
115 Corowa	116 Buloke	117 Eurobodalla
118 Yarriambiack	119 Albury	120 Tumbarumba
121 Hindmarsh	122 Moira	123 Cooma-Monaro
124 Wodonga	125 Indigo	126 Tatiara
127 Campaspe	128 Towong	129 Snowy River
130 Loddon	131 Greater Shepparton	132 Wellington
133 Benalla	134 Wangaratta	135 West Wimmera
136 Kingston	137 Greater Bendigo	138 Strathbogie
139 Horsham	140 Bega Valley	141 Northern Grampians
142 Alpine	143 Falls Creek Alpine Resort	144 Mount Hotham Alpine Resort
145 Central Goldfields	146 Mount Alexander	147 Mount Stirling Alpine Resort
148 Mitchell	149 Mount Buller Alpine Resort	150 Mansfield
151 Murrindindi	152 Pyrenees	153 Hepburn
154 Macedon Ranges	155 East Gippsland	156 Ararat
157 Ballarat	158 Lake Mountain Alpine Resort	159 Whittlesea
160 Moorabool	161 Yarra Ranges	162 Baw Baw

Source: Department of the Environment, 'Map showing the Murray–Darling Basin boundary overlaid with local government boundaries', available from <<http://www.environment.gov.au/water/programs/basin-communities/images/mdb-local-govt-areas.gif>> [accessed 24 June 2013].

Appendix 3: Indicative SBCP timelines as outlined in the relevant program guidelines

	Call for applications	Closing date	Notification of outcome	Funding agreements signed
Planning Component Round 1	23 June 2009	21 August 2009	October 2009	November 2009
Planning Component Round 2	April 2010	11 June 2010	August 2010	September 2010
Water Saving Initiatives Component Round 1	20 July 2010	17 September 2010	November 2010	February 2011
Water Saving Initiatives Component Round 2	2 September 2009	6 November 2009	January/February 2010	February/March 2010

Source: Departmental information.

Appendix 4: Governance structure for SBCP

Role	Membership	Accountabilities	Reporting Frequency	Report Structure
SRWUIP Head Program	First Assistant Secretary, Water Efficiency Division Assistant Secretary, Irrigation Efficiency Southern Branch	Strategic management of all SRWUIP projects, including managing the total SRWUIP portfolio that involves oversight of the budget, expenditure, parliamentary briefings, external communications, and SRWUIP level risk management	Monthly and ad hoc as required	Reporting to the SRWUIP Head Program was undertaken on a monthly basis and covered notable events occurring in the reporting period, and an overview of budget and risk
Water Group Project Board Alternative Titles: Project Board Water Group Board Water for the Future Board	Deputy Secretary and Water Group First Assistant Secretaries	Provides high level governance and decision making as required in relation to the SBCP and other Water Group programs, including reviewing significant decisions before their submission to the Minister	Monthly	Monthly reporting to the Project Board was provided through a one page program progress review, which included a number of standard items such as: background; major project milestones; current risks with a high or extreme rating; project issues and remedial actions; and an assessment of the overall status of the program (via traffic light format). Project Board minutes indicated that these reports were generally 'noted' or considered on an 'exceptions' basis

Role	Membership	Accountabilities	Reporting Frequency	Report Structure
Project Sponsor Alternative Titles: Project Director Program Delegate	Assistant Secretary, On-Farm and Urban Water Programs Branch	Provides program level governance and decision making as required in relation to the SBCP, including management of significant individual project issues	Assistant Secretary received monthly reports between January and July 2010 ¹	Reporting to the Project Sponsor was based heavily on the weekly directors' reports (described in paragraphs 3.7 to 3.10) and included information on the financial management of the program and an overview of projects' adherence to milestone schedules
Project Manager Alternative Titles: Program Manager Program Director	Director, SBCP. This role was undertaken at times by the Assistant Program Director	Provides project level governance and decision making as required in relation to the SBCP, including managing the department's oversight of individual projects and to elevate, explain and recommend corrective action to the Project Sponsor and Project Board where project tolerances are not met or are likely to be exceeded	Weekly	The responsible First Assistant Secretary also received a weekly SBCP 'hot issues and achievements' update that included an update on staffing matters
Project Team	SBCP team members	Undertakes project tasks on a day to day basis including assisting in the implementation, promotion and delivery of the program and report and act on potential delays, risks and issues	As required	

Source: ANAO analysis from departmental information.

Note 1: After July 2010, the weekly reports and the monthly Water Group Project Board report satisfied the information needs of the Assistant Secretary.

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