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Performance Audit

Award of Funding under the Community Development Grants Program

Department of Infrastructure, Regional Development and Cities

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Canberra ACT
22 August 2018

Dear Mr President
Dear Mr Speaker

In accordance with the authority contained in the *Auditor-General Act 1997*, I have undertaken an independent performance audit in the Department of Infrastructure, Regional Development and Cities. The report is titled *Award of Funding under the Community Development Grants Program*. I present the report of this audit to the Parliament.

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

Yours sincerely

A handwritten signature in black ink, reading 'Grant Hehir'.

Grant Hehir
Auditor-General

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

AUDITING FOR AUSTRALIA

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Summary and recommendations

Background

1. The Community Development Grants Program (CDGP/the program) originated from commitments made by the then Opposition in the lead-up to the 2013 Federal election. Its coverage has been extended over time so that it now includes commitments from the 2016 election as well as uncontracted projects from programs that were abolished following the 2013 election and other commitments.
2. The CDGP provides funding to construct and upgrade facilities to provide long term improvements in social and economic viability of local communities. Total funding for the CDGP is currently \$936.8 million, with a program end date of 30 June 2020. Funding has been approved for 680 projects with a total value of \$785.9 million.
3. The CDGP is administered by the Department of Infrastructure, Regional Development and Cities (DIRDC/the department).

Rationale for undertaking the audit

4. During an election campaign candidates may undertake to provide certain funding, services or facilities if their party is elected or re-elected to government. Election commitments are often implemented through a grant. All grants are required to be awarded through processes that comply with the Commonwealth Grants Rules and Guidelines (CGRGs). The CDGP was selected for audit due to Parliamentary interest in the award of program funding, including compliance with the CGRGs and the proposed benefits from projects that have been awarded funding.

Audit objective and criteria

5. The objective of the audit was to examine the design and conduct of the award of funding under the CDGP.
6. To form a conclusion against this audit objective, the ANAO adopted the following high level criteria:
 - Is the design of the CDGP consistent with the Commonwealth Grants Rules and Guidelines?
 - Have the processes implemented to award CDGP funding complied with the Commonwealth Grants Rules and Guidelines?

Conclusion

7. The department effectively designed and conducted the award of funding under the CDGP other than its assessment of, and briefing on, proposed project outcomes.
8. The design of the program was consistent with the Commonwealth Grants Rules and Guidelines. Establishing a non-competitive grants program with relevant and appropriate eligibility requirements and appraisal criteria was a sound approach. It balanced the expectations of governments seeking to deliver upon their election commitments with the requirements of the

grants administration framework. The design of the program also placed the department in a position to provide well-informed advice to the relevant Minister on whether funding should be awarded to candidate projects.

9. In most respects, the processes implemented to award funding complied with the Commonwealth Grants Rules and Guidelines. There were two shortcomings:

- the department's approach to one of the three appraisal criteria (that relating to outcomes/project benefits) was inadequate as it repeated claims by the project proponent as to what would be achieved, rather than providing the Minister with an assessment by the department as to how well the project aligned with the program outcome, and whether the achievement of the claimed project benefits could be measured; and
- briefings provided to Ministers recommending that funding be approved for candidate projects did not inform the decision-maker whether the three appraisal criteria for the program had been met in full, in part or not at all.

Supporting findings

Program design

10. Two ways of providing funding for the identified projects were considered. This was a non-competitive grants program (as had been used successfully following earlier elections to deliver project-specific regional commitments) and National Partnership Agreements with state governments.

11. Clear and comprehensive program guidelines were developed and issued in accordance with the requirements of the grants administration framework.

12. The program guidelines clearly outlined the program governance arrangements and the planned selection and decision-making processes.

13. Relevant and appropriate program eligibility requirements and three appraisal criteria were established and effectively communicated to project proponents through the program guidelines.

14. The department designed and implemented a process to gather relevant and appropriate information from project proponents to inform the assessment of projects and the provision of funding recommendations to decision-makers.

Award of funding

15. Consistent with the design of the program, only projects identified by the Australian Government were considered for funding. These projects have principally been various commitments made in the context of the 2013 and 2016 Federal elections.

16. Eligibility checking focused on whether the project proponent was a legal entity and the consistency of the project with the intent of the original funding announcement. This work led to some election commitment projects initially allocated to the program being transferred out of the program.

17. The appraisal criteria relating to project viability and sustainability and proponent viability were demonstrably applied by the department to inform its assessment of the value for money of each candidate project. The department's approach to the outcomes/project benefits criterion was inadequate. Specifically, the material provided by the department to the relevant Minister in support of its recommendations that funding be approved outlined the project proponent's view of the outcomes it claims would be achieved from the project rather than recording a departmental assessment of the proponents' claims.

18. The department provided written advice to the Minister for all projects where an assessment was completed. The briefing addressed a range of relevant considerations, including most of the requirements of the Commonwealth Grants Rules and Guidelines. A key omission in the advice provided to Ministers was that the department did not state whether the three appraisal criteria for the CDGP were fully met, partially met or not met at all.

19. Clear funding recommendations were provided by the department. There were no instances where the department recommended that funding not be awarded. The briefing packages for recommended projects included a summary of the department's assessment and a recommendation that grant funding be approved.

20. The reasons for the award of funding were recorded in briefing packages that the department prepared for each grant that was recommended to, and approved by, a Minister. There were no instances where a Minister declined to award funding to a project recommended by the department, or where funding was awarded to a project the department had not recommended for funding. The funding decisions were appropriately recorded.

21. The assessment and decision-making processes were timely, once information had been provided by project proponents for assessment. The department's approach was not to provide a funding recommendation on a project to the decision-maker until sufficient information had been provided to enable an informed assessment to be undertaken.

Recommendations

Recommendation no. 1
Paragraph 3.22 The Department of Infrastructure, Regional Development and Cities clearly identify in advice it provides to a Minister on the award of grant funding whether the proposed grant has been assessed as fully meeting, partially meeting or not satisfactorily meeting the program criteria.

Department of Infrastructure, Regional Development and Cities response:
Agreed.

Summary of entity response

22. The proposed audit report was provided to the Department of Infrastructure, Regional Development and Cities. The department response is reproduced at Appendix 1, and is summarised below.

Department of Infrastructure, Regional Development and Cities

The Department welcomes the ANAO's conclusions and agrees with the recommendation.

Key learnings for all Australian Government entities

23. Below is a summary of key learnings, including instances of good practice, which have been identified in this audit that may be relevant for the operations of other Commonwealth entities.

Grants

- Developing clear and comprehensive grant program guidelines and governance arrangements, that are consistent with the grants administration framework, assists in managing a grants program which meets its time and impact objectives and drives quality decision making.
- Grant appraisal criteria and eligibility requirements that are shared openly and in a timely manner with applicants, can enable better quality grant applications and transparent, thorough and consistent assessment processes, including consideration of value for money.
- To ensure the best possible outcomes and value from Australian Government grants, it is important that departments scrutinise:
 - proponent claims as to what benefits will result from the award of a grant;
 - whether the grant funding is needed to secure those benefits; and
 - whether the claimed benefits are sufficient given the amount of funding that is being sought.

Audit findings

1. Background

Introduction

1.1 The Community Development Grants Program (CDGP/the program) originated from commitments made by the then Opposition in the lead-up to the 2013 Federal election. The then Opposition had announced its intention to consider funding for identified projects that will upgrade local community and sports infrastructure across Australia.

1.2 The CDGP was announced by the Minister for Infrastructure and Regional Development and the Assistant Minister for Infrastructure and Regional Development on 4 December 2013. The stated aim of the CDGP was to deliver on election commitments to provide up to \$342 million towards approximately 300 community projects across Australia. The program was originally expected to cease on 30 June 2017.

1.3 The original focus of the program was the government's 2013 election commitments as well as uncontracted projects from rounds two, three and four of the Regional Development Australia Fund (RDAF), and the Community Infrastructure Grants (CIG) Program.

1.4 The scope of the program was subsequently extended to include the government's 2016 election commitments, which included 63 projects that had been submitted under round three of the National Stronger Regions Fund (NSRF). Other projects have also been funded under the program including identified government commitments. Total funding for the program was increased to \$936.8 million, with a new end date of 30 June 2020. Funding has been approved for 680 projects with a total value of \$785.9 million.

1.5 The CDGP is administered by the Department of Infrastructure, Regional Development and Cities (DIRDC/the department).¹

Grants administration framework

1.6 The administration of grants programs is subject to mandatory requirements, key principles and better practice guidance set out in the Australian Government's grants policy framework.

1.7 In late 2013, when the CDGP was being established, the grants policy framework was encapsulated in the Commonwealth Grants Guidelines (CGGs), which were issued by the Minister for Finance under Regulation 7A of the *Financial Management and Accountability Regulations 1997*. All agencies subject to the *Financial Management and Accountability Act 1997* were required develop their own specific grants administration practices based on the mandatory requirements and principles of grants administration in the CGGs. The CGGs included requirements that applied to Ministers.

1.8 On 1 July 2014, the CGGs were superseded by the Commonwealth Grants Rules and Guidelines (CGRGs), which were issued under section 105C of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). The CGRGs contain similar requirements and guidance to the CGGs. The CGRGs were revised in August 2017.

1 At the commencement of the program, the department was known as the Department of Infrastructure and Regional Development.

Audit rationale and approach

1.9 During an election campaign candidates may undertake to provide certain funding, services or facilities if their party is elected or re-elected to government. Election commitments are often implemented through a grant. All grants are required to be awarded through processes that comply with the Commonwealth Grants Rules and Guidelines (CGRGs). The CDGP was selected for audit due to Parliamentary interest in the award of program funding, including compliance with the CGRGs and the proposed benefits from projects that have been awarded funding. The ANAO has audited a number of regional grant programs, including a predecessor program to the CDGP (Auditor-General Report No. 24 2010–11, *The Design and Administration of the Better Regions Program*).

Audit objective, criteria and scope

1.10 The objective of the audit was to examine the design and conduct of the award of funding under the CDGP.

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

- Is the design of the CDGP consistent with the CGRGs?
- Have the processes implemented to award CDGP funding complied with the CGRGs?

1.12 The scope of the audit focused on program design and the award of funding to proponents from the inception of the CDGP until May 2018. The audit did not examine subsequent stages in the grants management process, including the development and management of grant agreements.

Methodology

1.13 The methodology principally involved an examination and analysis of the department's records relating to the CDGP dating back to the program's inception in 2013. A key focus for the audit was the analysis of the department's assessment of 614 individual projects identified as election commitments completed by the department as at March 2018. These assessments provided the basis for the advice that was provided by the department to a Minister about whether to approve grant funding. The audit team also interviewed and conducted discussions with relevant departmental staff.

1.14 The audit was conducted in accordance with the ANAO auditing standards at a cost to the ANAO of approximately \$257 000.

1.15 The team members for this audit were Amanda Ronald and Brian Boyd.

2. Program design

Areas examined

The ANAO examined whether the design of the program was consistent with the Commonwealth Grants Rules and Guidelines.

Conclusion

The design of the program was consistent with the Commonwealth Grants Rules and Guidelines. Establishing a non-competitive grants program with relevant and appropriate eligibility requirements and appraisal criteria was a sound approach. It balanced the expectations of governments seeking to deliver upon their election commitments with the requirements of the grants administration framework. The design of the program also placed the department in a position to provide well-informed advice to the relevant Minister on whether funding should be awarded to candidate projects.

Areas for improvement

The ANAO has not made any recommendations to the department in relation to program design. One key learning for all Australian Government entities was identified, relating to communications with project proponents prior to funding being approved.

What alternatives to a grant program were considered?

Two ways of providing funding for the identified projects were considered. These were a non-competitive grants program (as had been used successfully following earlier elections to deliver project-specific regional commitments) and National Partnership Agreements with state governments.

2.1 The Commonwealth Grant Guidelines (CGGs) were in place at the time the CDGP was being established in late 2013. The CGGs stated that granting activities can take a variety of forms, including payments made as a result of competitive or non-competitive processes. The CGGs also include a number of principles and guidance to be considered in the planning and design phase of a granting activity. This includes:

- competitive, merit based selection processes should be used to allocate grants, unless specifically agreed otherwise by a Minister, Chief Executive or delegate; and
- where a method other than a competitive merit based selection process is planned to be used, entity staff should document why this approach would be used.²

2.2 Similar better practice principles have been included in the Commonwealth Grants Rules and Guidelines (CGRGs).³

2.3 Since the 2007 Federal election, closed non-competitive grant programs have been established by successive governments to make funding available for regional election commitments. Auditor-General Report No. 24 2010–11, *The Design and Administration of the Better Regions Program* concluded that the establishment of a specific election commitments program

2 Commonwealth Grant Guidelines, paragraph 4.8, p. 13.

3 Commonwealth Grant Rules and Guidelines, paragraph 11.5, p. 31.

following the 2007 election was (at that time) a new approach aimed at promoting better practice in the consideration and implementation of regional election commitments and that this approach assisted to balance the expectation of governments seeking to deliver upon their election commitments with the requirements of the grants administration framework. Of note was that this approach addressed challenges that had been identified in governments seeking to fund election commitments through existing grant programs, in particular:

- the policy intent underpinning an election commitment may not be consistent with the eligibility or other criteria for the existing program;
- funding election commitments through an existing grant program, or reducing the funding available under an existing grant program in order to fund election commitments, can lead to calls for the size of the existing program to be increased or reinstated as well as adversely affecting the achievement of program outcomes; and
- a series of one-off grants does not provide a suitable framework for delivering a large number of projects.

2.4 Two ways of providing funding for the identified projects were considered. This involved a non-competitive grants program (as had been used following earlier elections to deliver project-specific regional commitments) and National Partnership Agreements (NPAs) with state governments. After receiving advice from departments following the 2013 election, the government decided upon a grants program as this approach was expected to allow the identified commitments to be delivered more quickly and efficiently than through NPAs. In developing its advice, the department demonstrated an awareness of the requirements of the grants administration framework as well as learning lessons from Auditor-General Report No. 24 2010–11, *The Design and Administration of the Better Regions Program*.

Were appropriate program guidelines developed?

Clear and comprehensive program guidelines were developed and issued in accordance with the requirements of the grants administration framework.

2.5 Central to the planning of a granting activity, and a key obligation under the grants administration framework, is the development of program guidelines.

2.6 While the CGGs and CGRGs do not prescribe the structure or content of grant guidelines, approval processes are outlined in both documents. The department addressed the relevant requirements in the CGGs relating to the development, approval and publication of program guidelines for the CDGP.

2.7 The original program guidelines were developed and approved in December 2013. The department provided a briefing to the Assistant Minister to advise of the proposed CDGP guidelines and implementation arrangements. Attached to this brief was the proposed implementation strategy, CDGP guidelines self-assessment risk analysis, a draft version of the program guidelines and a letter to the Minister for Finance seeking approval to release the guidelines. The department sought input on the program guidelines and the self-assessment risk analysis from the Department of Finance (Finance) and the Department of the Prime Minister and Cabinet. The Minister for Finance granted approval to release the guidelines for the CDGP on 19 December 2013. The CDGP guidelines covered a range of relevant matters including:

- program outcomes;
- eligibility requirements;
- proposal submission, including projects from previous programs;
- the appraisal process and criteria;
- the decision-making process;
- conditions of funding; and
- payment of funding.

2.8 The content of the guidelines was consistent with the better practice checklist issued by Finance.

2.9 The guidelines confirmed that: only projects identified by the Australian Government would be considered for funding under the CDGP, and that project proposals must be consistent with the intent of the announced commitment. A list of projects identified by the government was provided on the department's website.

2.10 The program guidelines were not updated, as required by the CGRGs, to reflect the \$50 million increase in funding or extension of the CDGP to 30 June 2018, as reflected in the 2015–16 Budget release on 12 May 2015.

2.11 Revised guidelines were developed in late 2016, mainly to reflect the government's 2016 election commitments. The content and structure were broadly similar to the original guidelines, but included a change to the program's outcome. Where previously, the outcome was to 'upgrade' facilities to provide long term improvements in social and economic viability of local communities, the revised guidelines extended this to relate to both 'construct' and 'upgrade' facilities. The rationale for this change was not documented in the approval process for the revised guidelines. This change broadened the range of projects that could be funded under the CDGP with advice from the department to Finance outlining that this would enable the program to cover the various types of projects that had been identified for funding.

2.12 The 2016 CDGP guidelines were approved by the Minister for Finance on 13 December 2016, and were subsequently published on the department's website.

2.13 On 19 June 2017 amendments 'to improve the accuracy of the Goods and Services Tax (GST) specific interpretations in the guidelines' and associated Ministerial templates were approved within the department. It was noted that the guidelines remained consistent with the CGRGs; the changes sought were not material but administrative in nature; and reflected the updated legislative rulings in relation to payments involving GST.

Do the guidelines clearly outline the program governance arrangements, selection and decision-making processes?

The program guidelines clearly outlined the program governance arrangements and the planned selection and decision-making processes.

2.14 Once finalised and published, program guidelines provide the basis on which entities are expected to administer grant programs, including the conduct of the assessment or appraisal process and the provision of advice to decision-makers.

2.15 The process flowchart in the published CDGP guidelines outlined the first three processes for the department as follows:

- *Project Proposals* — the department invites organisations responsible for projects identified by the Australian Government to submit a Project Proposal form (using the form provided by the department)⁴;
- *Appraisal* — the department assesses the Project Proposal against the eligibility and assessment criteria of the CDGP guidelines; and
- *Advice to Approver* — the department provides advice to the approver (the Minister) on the merits of the Project Proposal relative to the CDGP guidelines and, whether, in the department's view, the project will represent a proper use of Commonwealth resources.⁵

2.16 The department supported the implementation of the program by developing:

- a Program Plan (which was not completed and remains in draft form, including references to a predecessor program on which it was based);
- a Procedures Manual (based on the manual for a predecessor program) and an associated assessment guide; and
- various templates.

Provision of funding confirmed by Ministers

2.17 Prior to these initial processes being undertaken by the department, there was an earlier step in the CDGP whereby Ministers wrote to organisations to whom a funding commitment had been made, to confirm the provision of funding by the Australian Government.⁶ This step was not outlined in the program guidelines.

2.18 The first letters were sent from 6 December 2013, targeting the 2013 election commitments. Letters were sent by both the Minister and Assistant Minister for Infrastructure and Regional Development.

2.19 The proponents with identified projects under the 2016 election commitments, and other government commitments identified after the 2016 election, were contacted in the same manner as for the 2013 election commitments.

2.20 Responses to those letters received by the department illustrated the challenges of administering a grants program where project funding has been 'confirmed' before a value for money assessment has been undertaken given that the CGRGs require that:

- Ministers must not approve a grant without first receiving written advice from officials on the merits of a grant; and

4 The 2016 guidelines state: 'Proposals must be completed on the official Request for Information form and must address all the requirements of this form, unless otherwise other arrangements are advised by the Department.'

5 Under the *Public Governance, Performance and Accountability Act 2013*, 'proper', when used in relation to the use or management of public resources, means efficient, effective, economical and ethical.

6 As discussed further in Chapter 3, the letters sent by the Minister to the proponent to confirm the provision of funding were relied upon by the department during the appraisal process for projects when the original election commitment could not be located.

- this advice should address the appraisal criteria as well as whether, overall, the proposed grant represents value with relevant money.

2.21 For example, some project proponents took the view that they did not need to provide the department with information for assessment. Further paragraph 3.32 discusses the challenges the department experienced with delays receiving information from some proponents.

Were relevant and appropriate program eligibility requirements and appraisal criteria established and effectively communicated?

Relevant and appropriate program eligibility requirements and appraisal criteria were established and effectively communicated to project proponents through the program guidelines.

Eligibility requirements

2.22 The eligibility requirements for the CDGP were clearly set out in the program guidelines.

2.23 The overarching requirement was that only projects identified by the Australian Government would be considered for funding. For the original 2013 program guidelines, these projects comprised the 2013 election commitments and a number of uncontracted projects from the RDAF and CIG Program. The revised program guidelines from 2016 did not specify the types of projects that were eligible. Rather, the guidelines stated (as the 2013 version also did) that general applications from organisations not identified by the Australian Government would not be accepted by the department.

2.24 The 2013 and 2016 guidelines also stated that:

- funding proponents must be a legal entity and have an Australian Business Number (ABN) or Australian Company Number (ACN);
- project proposals must be consistent with the intent of the announced commitment; and
- projects were expected to be 'tender ready' at the time project proposal forms were submitted by proponents.

2.25 In addition, the guidelines stated that funding would not be provided for ongoing operational and maintenance costs or for existing staff member salaries of the funding proponent organisation.

Appraisal criteria

2.26 A key shortcoming in the design of the predecessor Better Regions Program (Auditor-General Report No. 24 2010–11, *The Design and Administration of the Better Regions Program*) was that the guidelines for that earlier program had not included any appraisal criteria. This issue was addressed by the department in its design of the CDGP.

2.27 The 2013 program guidelines stated that the department would undertake a value with public money assessment against three appraisal criteria:

- Outcomes — an assessment to determine whether a project would contribute to the outcome of the CDGP;

- Project viability and sustainability — to identify and consider the complexity of the project, risks associated with its delivery and ongoing management and the capability of the funding proponent to deliver and maintain the project; and
- Funding proponent viability — to establish the financial stability of the funding proponent and their capacity to meet costs associated with the delivery of the project.

2.28 Three appraisal criteria were also included in the 2016 guidelines, but the title of the first criterion was changed from ‘Outcomes’ to ‘Project benefits’. The criterion substantively remained unchanged.

2.29 The 2016 guidelines stated that the three criteria were equally weighted in the value for money assessment; whereas the 2013 guidelines made no reference to the weighting of the criteria.

2.30 As set out in Table 2.1, the guidelines also outlined the key matters to be considered by departmental staff in assessing projects against each criterion.

Table 2.1: Key matters to be considered in assessing appraisal criteria

Criterion	Key considerations
Outcomes/Project benefits	<ul style="list-style-type: none"> • Does the project align with the Outcome of the Community Development Grants Program; • What information is required to measure whether a project contributed to the Community Development Grants Program and is the funding proponent able to collect this information.
Project viability and sustainability	<ul style="list-style-type: none"> • How rigorously the project has been scoped and costed; • How the proponent plans to secure partnership funding (cash and in-kind), where required; • How rigorously the proponent has assessed delivery risks and treatments for identified risks; • How the proponent aims to maintain the project in the future.
Funding proponent viability	<ul style="list-style-type: none"> • Funding proponents level of liquidity and solvency; • Quality of the proponent’s financial governance; • Ability to secure partner funding to meet project costs, where required.

Source: ANAO analysis of the 2013 and 2016 program guidelines.

Were arrangements developed to enable project assessments and funding decisions to be well informed?

The department designed and implemented a process to gather relevant and appropriate information from project proponents to inform the assessment of projects and the provision of funding recommendations to decision-makers.

2.31 Following the ministerial letters to identified proponents, departmental staff contacted identified proponents about the Australian Government commitment of funding for their proposed projects.

2.32 For the 2013 election commitments (and other relevant government commitments identified after the 2013 election commitments), letters of advice were sent seeking information to

enable the department to commence the appraisal process. Specifically, the department requested that proponents complete (within six months) a Project Proposal form for submission along with relevant nominated supporting documentation.

2.33 A similar process was followed by the department for the 2016 election commitments, but the revised guidelines required proponents to submit a Request for Information form within three months of the dated letter.

2.34 The Project Proposal form and Request for Information form⁷ requested details about the organisation, the project details, the proponent's financial details and the required supporting documentation. The supporting documentation included:

- audited financial statements for the last two years and, if applicable or available, cash flow forecasts for the next five years;
- business plan and/or feasibility study;
- project management plan;
- risk management plan;
- copies of insurance documents;
- market research/community consultation;
- statutory approvals;
- confirmation of partnership funding; and
- designs, tender documents and cost estimates.

2.35 A key shortcoming in a predecessor program audited by the ANAO (Auditor-General Report No. 24 2010–11, *The Design and Administration of the Better Regions Program*) was that information was not sought by the department from project proponents on the intended benefits or outcomes from their respective projects. Obtaining information of that nature is important because, in assessing whether a proposed grant represents efficient and effective use of public money, it is necessary to examine the likely or intended outcomes of a project in light of the amount of funding being sought. This shortcoming was addressed by the department in its design of the CDGP with the Project Proposal form and Request for Information form requiring project proponents to:

- provide details regarding how the project will contribute to the outcome of the CDGP in terms of community benefits and/or economic benefits, along with an explanation as to how the proponent had collected this information and the provision of any available supporting evidence; and
- detail how many jobs will be created for the project as well as how many jobs would be retained as a direct result of the project.

2.36 In addition to obtaining information for departmental analysis from project proponents, the program guidelines noted that an Independent Viability Assessment (IVA) may be undertaken. IVAs are discussed further at paragraph 3.12.

7 The 2013 guidelines (section 5: Submitting a proposal) refer to Project Proposal forms; the 2016 program guidelines (section 4: Submitting a proposal) refer to Requests for Information.

Projects from previous programs

2.37 For the identified projects from other programs (RDAF and the CIG Program), letters or emails were sent seeking confirmation that the scope and information for the project approved prior to the 2013 election remained the same. Proponents were advised that if there were no changes, the project would not be subject to an assessment, rather the department would commence funding agreement negotiations. Any changes to the project scope would require an assessment and approval by the Assistant Minister before funding agreement negotiations could take place. Funding agreements were required to be executed within six months of the date of the letter of advice, whether an assessment was required or not.

2.38 Of the 66 letters sent, 60 were sent on 23 December 2013. Of these 60 projects, 46 funding agreements were negotiated and executed within the six month timeframe; and three were executed within one week over the six month timeframe. Of the remaining 11 projects, 10 have been negotiated and executed, taking approximately nine and a half months. One project still remains outstanding, with the department advising the ANAO in June 2018 that it has to this date been unable to secure satisfactory project information regarding the site and the lead proponent for the project and that there are significant risks to project and/or financial viability.

2.39 The other six letters were sent to proponents between 24 January 2014 and 5 March 2014. These six funding agreements were negotiated and executed within the specified six month timeframe.

3. Award of funding

Areas examined

The ANAO examined whether the processes implemented to award funding under the Community Development Grants Program complied with the Commonwealth Grants Rules and Guidelines.

Conclusion

In most respects, the processes implemented to award funding complied with the Commonwealth Grants Rules and Guidelines. There were two shortcomings:

- the department's approach to one of the three appraisal criteria (that relating to outcomes/project benefits) was inadequate as it repeated claims by the project proponent as to what would be achieved, rather than providing the Minister with an assessment by the department as to how well the project aligned with the program outcome, and whether the achievement of the claimed project benefits could be measured; and
- briefings provided to Ministers recommending that funding be approved for candidate projects did not inform the decision-maker whether the three appraisal criteria for the program had been met in full, in part or not at all.

Areas for improvement

The department has advised the ANAO of steps it has taken to address the first shortcoming. In relation to the second, the ANAO has made a recommendation in relation to improving the briefing provided to Ministers. More broadly, there is a key learning for all Australian Government entities relating to the importance of scrutinising the benefits that can be expected from the award of grant funding to projects.

How were candidate projects identified?

Consistent with the design of the program, only projects identified by the Australian Government were considered for funding. These projects have principally been various commitments made in the context of the 2013 and 2016 Federal elections.

3.1 As at 18 May 2018, \$978.9 million in funding has been committed to 789 projects under the program, principally 2013 and 2016 election commitments. Table 3.1 provides a breakdown of the projects and funding committed under the different project streams.

3.2 Commitments from the 2013 and 2016 elections comprise the majority of projects and program funding. These commitments included projects that had been submitted as part of the third funding round of the National Stronger Regions Fund (NSRF). The establishment of the NSRF was a 2013 Federal election commitment of the then Opposition, with \$1 billion to be made available over five years from 2015–16. Mid-way through the third funding round, the program's early abolition was announced as a 2016 Federal election commitment of the Government. The Government's election commitments had also included funding 66 of the projects that had been

submitted in round three of the NSRF for \$199.8 million, with the majority of these to be delivered through the CDGP.⁸

3.3 The program is also providing funding for projects approved but not contracted under two earlier regional grant programs. These were the:

- Regional Development Australia Fund, which had been established in 2011 as a nationally competitive, merit-based grants program with discrete funding rounds. Four RDAF funding rounds were delivered between 2011 and 2013. Under the third and fourth rounds, more than \$226 million in grant funding was awarded to 121 projects but a number of these approved projects remained uncontracted at the time of the 2013 election; and
- Community Infrastructure Grants Program, which had been established to provide funding for commitments from the 2010 election. A number of those commitments had been approved but not yet been contracted at the time of the 2013 election.

3.4 At various points in time the Australian Government has decided to fund other projects from the program. This has included:

- in June 2015, the Australian Government agreed to fund from the CDGP six projects identified by the Prime Minister to the value of \$25.7 million. One project was subsequently funded from another source with the remaining five projects awarded funding totalling \$23.2 million; and
- in November 2016, the Australian Government announced that it would provide \$43 million to support Hazelwood Power Station workers and Victoria's Latrobe Valley following the closure of the facility at the end of March 2017. This included \$20 million that was added to the CDGP to fund local infrastructure projects that would be identified in consultation with the local community. At the time of the audit, 14 projects involving funding of \$19.4 million had been identified. Of these, seven had been approved for \$14.0 million in funding, with the department awaiting information to assess in relation to the remaining projects.

Table 3.1: Projects and funding committed under the CDGP, as at 18 May 2018

Project stream	Number of projects	Funding committed (\$m)
2013 Election Commitments	221	178.6
2016 Election Commitments	393	404.3
2016 Election Commitments — National Stronger Regions Fund projects	63	183.6
Regional Development Australia Fund	52	97.3
Community Infrastructure Grants Program	14	17.0
Other projects	46	98.1
Total	789	978.9

Source: ANAO analysis of departmental records.

8 See further in Auditor-General Report No.30 2016–17, *Design and Implementation of Round Two of the National Stronger Regions Fund*.

Were ineligible projects identified and then excluded from further consideration?

Eligibility checking focused on whether the project proponent was a legal entity and the consistency of the project with the intent of the original funding announcement. This work led to some election commitment projects initially allocated to the program being transferred out of the program.

3.5 In relation to the program eligibility requirements, the Procedures Manual and the associated assessment guide focused on assessing whether the proponent was a legal entity that could enter into a funding agreement and whether the project was consistent with intent of the commitment that had been made. For election commitment projects, this was to address whether the project was consistent with the intent of the announced commitment; for projects approved under previous programs, this was to address whether any change in scope needed to be considered by the Minister.

3.6 The election commitments were identified and determined by the Australian Government. The department was then provided with a list of projects identified as election commitments. Both sets of program guidelines referred users to a list of projects, available on the department's website (www.infrastructure.gov.au). In February 2014, August 2014 and November 2016, the department identified a number of election commitments to be transferred to other agencies as they did not align with the CDGP.

3.7 Part of the eligibility process was to ensure that the identified project was consistent with the intent of the election commitment. For 75 per cent of the 614 projects analysed, the department recorded that it had been able to confirm the intent of the project to the announced commitment. For the remaining 25 per cent of election commitment projects, the department was not able to locate an announcement made during the campaign. Instead, it relied upon correspondence sent by Ministers after the Election (see paragraphs 2.17 to 2.19) to confirm the intent of the commitment.

3.8 There were also some difficulties with the 'tender ready'⁹ expectation. In only six project assessments was the department able to explicitly state that the project was 'tender ready' or that proponents were appointing contractors to prepare 'tender ready' documentation for approach to market.

9 The program guidelines defined 'tender ready' as 'a project that has been scoped, costed and planned sufficiently, that the Australian Government is confident that the supplier market can be formally approached and the project will not be necessarily delayed by known or expected factors.'

Were the published appraisal criteria applied to inform an assessment of the value with money of each candidate project?

The appraisal criteria relating to project viability and sustainability and proponent viability were demonstrably applied by the department to inform its assessment of the value for money of each candidate project. The department's approach to the outcomes/project benefits criterion was inadequate. Specifically, the material provided by the department to the relevant Minister in support of its recommendations that funding be approved outlined the project proponent's view of the outcomes it claims would be achieved from the project rather than recording a departmental assessment of proponents' claims.

Project viability and sustainability criterion and proponent viability criterion

3.9 There was adequate assessment evident for both of the viability criteria.

3.10 The CDGP Procedures Manual and related assessment guide provided extensive guidance to staff on how to assess candidate projects against these two criteria.

3.11 In the assessment record the department provided to the Minister to support its funding recommendation, the department recorded its commentary and assessment on the key assessment considerations published in the program guidelines (see Table 2.1). A risk analysis table was also attached to the assessment, where the department identified any concerns for these criteria.

3.12 It was also clear from the department's project assessments that it undertook additional checks of the proponent's responses, and sought external validation (including from the Australian Securities and Investments Commission) for the funding proponent viability criterion. In addition, 50 independent viability assessments (IVA, see paragraph 2.36) were undertaken. In each instance, the IVA identified risks or concerns to be mitigated and treated through the grant agreement for the project.

Outcomes/project benefits criterion

3.13 The assessment of the outcomes/project benefits criterion was not satisfactory.

3.14 The CDGP Procedures Manual required that the departmental project officer 'make a statement as to whether the project will contribute to the outcome of the CDGP'. The Manual also included six questions to consider when identifying community benefits for a project. Significantly more comprehensive guidance was provided in the Procedures Manual on how to assess project's against the other two appraisal criteria. For example, the Manual did not address:

- the two key assessment considerations published in the program guidelines (see Table 2.1);
- how assessors were to consider whether the envisaged benefits were sufficient relative to the amount of funding being sought; or

- whether projects that had been completed by the proponent before the CDGP appraisal and approval processes had been completed could be considered to meet the criterion.¹⁰ The completion of projects before the appraisal and decision-making processes are completed suggests that the intended benefits and outcomes of the project have been achieved without public funding.¹¹

3.15 The assessment record subsequently prepared by the department repeated claims made by the proponent about what the project would achieve without any commentary or analysis from the department to demonstrate it had assessed the claimed outcomes/benefits as likely to be achieved (Table 3.2 provides some examples).

Table 3.2: Department’s assessment of identified projects

Project ID	Assessment of Outcomes/Project benefits
CDG034	The proponent has advised that the project will provide the following benefits to the community by: <ul style="list-style-type: none"> • improving the quality of sporting programs by replacing worn equipment; and • expanding the range of activities and programs offered. The project is expected to retain one full time job.
CDG070	The proponent has advised the project will provide a long term tourist attraction for Evans Head and provide enhanced interest in the aviation heritage of Evans Head. Expected outcomes include increased tourism to the facility and the Northern Rivers area.
CDG334	The proponent has advised that the project will provide the following social and/or economic benefits to the community: <ul style="list-style-type: none"> • improve learning outcomes and student comfort; and • encourage current and future community groups to request more frequent use of the hall.
CDG519	The proponent has advised that the project will provide the following social and/or economic benefits to the community: <ul style="list-style-type: none"> • provide irrigation to 10 fairways improving the playing surface to attract more visitors to use the club facilities; and • provide a safe storage solution for irrigation equipment.
CDG615	The proponent has advised the project will provide the following social and/or economic benefits to the community: <ul style="list-style-type: none"> • allow high volumes of booklets and study materials to be printed for students.

10 From the department’s records, the ANAO identified that there were at least nine projects (with funding amounts ranging from \$10,000 to \$200,000) that had been completed before the CDGP appraisal and approval processes had been completed.

11 The CGRGs state: ‘A fundamental appraisal criterion is that a grant should add value by achieving something worthwhile that would not occur without the grant.’

Project ID	Assessment of Outcomes/Project benefits
CDG739	<p>The proponent has advised the project will provide the following social and economic benefits to the community:</p> <ul style="list-style-type: none"> • protect a heritage site with a fire protection system compliant with the Building Code of Australia; • enhance amenity and safety for evening and night time outdoor activities; • help activate the night life of Liverpool’s central business district; and • create one job during the construction phase.

Source: Sample of the department’s assessments of the Outcomes/Project benefits criterion.

3.16 In June 2018, the department advised the ANAO that:

In relation to the briefing to Ministers on individual projects, we accept the ANAO’s finding that advising the Minister of the proponent’s view of the outcomes to be achieved from the project is insufficient and that an assessment of the proponent’s claims needs to be documented in the brief. When the ANAO advised the Department of this issue during the audit, we immediately adjusted our briefing templates to ensure that the Department’s assessment of the outcome criteria is adequately documented.¹²

However, we do not accept that this means that the project itself does not represent value with relevant money, nor that we were not able to make the case that it represents value with relevant money. As stated previously, we do not put forward a project for approval by the Minister unless we are comfortable that the project meets the criteria of the program guidelines. This is also evidenced by the fact that the Department advised that a number of projects identified in the election commitments did not meet the program guidelines and arranged for them to be transferred to other portfolios for consideration following both the 2013 and 2016 elections.

Was the Minister advised in writing on the extent to which projects met the criteria?

The department provided written advice to the Minister for all projects where an assessment was completed. The briefing addressed a range of relevant considerations, including most of the requirements of the Commonwealth Grants Rules and Guidelines. A key omission in the advice provided to Ministers was that the department did not state whether the three appraisal criteria for the CDGP were fully met, partially met or not met at all.

3.17 A key obligation under the grants administration framework is that officials must provide written advice to Ministers, where Ministers exercise the role of an approver — as is the case for the CDGP. The CGRGs set out that, at a minimum, the advice must:

- explicitly note that the spending proposal considered for approval is a ‘grant’;
- provide information on the applicable requirements of the grants administration framework, including the legal authority for the grant;
- outline the application and selection process, including the selection criteria, that were used to select potential grant recipients; and

¹² The ANAO has examined the revised briefing templates and identified to the department where further enhancements are required to fully address this finding.

- include the merits of the proposed grant or grants relative to the grant guidelines (including assessment against the eligibility and assessment criteria) and the key consideration of achieving value with public money.

3.18 The CGRGs further state that, at a minimum, the advice should indicate which applications: fully meet the selection criteria; partially meet the criteria; or did not meet any of the criteria.

3.19 The department's approach demonstrably met most of these requirements. In particular, the briefing package provided in respect to each project the department recommended for funding:

- clearly identified that the spending proposal involved a grant;
- set out the relevant requirements of the grants administration framework that applied to the Ministerial decision-making process, including the legal authority for the award of a grant; and
- a summary of the results of the department's assessment work.

3.20 The assessment summary prepared by the department included information on the project including the proponent, the amount of funding, the location (including primary electorate), the proposed grant funding (as well as total estimated cost of the project) and a description.

3.21 A key omission in the advice provided to Ministers was that the department did not explicitly state whether the three appraisal criteria for the CDGP were fully met, partially met or not met at all. The assessment summary attached to the recommendation brief included a 'Value with relevant money' assessment and a 'Recommendation' without providing any indication as to whether appraisal criteria had been met. Rather, the value for money assessment typically stated that:

On the basis of the information provided by the proponent and further enquiries made by the Department as part of the assessment process:

- The project meets the intent of the Government's announcement;
- Project costs and benefits are reasonable; and
- The project can be sustained.

On this basis the project is considered value with relevant money.

Recommendation no.1

3.22 The Department of Infrastructure, Regional Development and Cities clearly identify in advice it provides to a Minister on the award of grant funding whether the proposed grant has been assessed as fully meeting, partially meeting or not satisfactorily meeting the program criteria.

Department of Infrastructure, Regional Development and Cities response: *Agreed.*

Was the Minister given clear funding recommendations?

Clear funding recommendations were provided by the department. There were no instances where the department recommended that funding not be awarded. The briefing packages for recommended projects included a summary of the department's assessment and a recommendation that grant funding be approved.

3.23 The Procedures Manual outlined the required contents for briefing packages for projects that were to be recommended for funding, as well as for any project that was not being recommended for funding.

3.24 The contents of the briefing packages for the 614 projects completed by the department at the time of ANAO audit fieldwork complied with the requirements of the Procedures Manual. Each briefing requested that the relevant Minister:

- agree to the department's assessment (which was provided as part of the package);
- approve expenditure under the financial framework of the requested grant funding; and
- sign letters to the proponent and relevant Member of Parliament advising of the funding decision.

3.25 There were no instances where the department recommended that funding not be awarded. There were 29 projects where the amount of funding awarded was less than the announced commitment.

Are the reasons for funding decisions transparent?

The reasons for the award of funding were recorded in briefing packages that the department prepared for each grant that was recommended to, and approved by, a Minister. There were no instances where a Minister declined to award funding to a project recommended by the department, or where funding was awarded to a project the department had not recommended for funding. The funding decisions were appropriately recorded.

3.26 Under the grants administration framework, a Minister that approves grant funding must record the basis for the approval relative to the grant guidelines and key considerations of value with relevant money.

3.27 Where a Minister agrees with the agency funding recommendation in respect to a grant (irrespective of whether the recommendation was that the grant be approved or not approved), the Minister is able to point to the agency assessment against the program guidelines as documenting the basis on which they have reached their decision. Otherwise, the Minister will need to record their own reason(s).

3.28 For each grant awarded, the relevant Minister recorded that they agreed to the department's assessment and approved the grant expenditure. This provided an appropriate record of the reason for each decision to award funding.

3.29 There were no instances where a Minister did not approve funding for a project that the department had recommended be funded.

Have the assessment and decision-making processes been timely?

The assessment and decision-making processes were timely, once information had been provided by project proponents for assessment. The department's approach was not to provide a funding recommendation on a project to the decision-maker until sufficient information had been provided to enable an informed assessment to be undertaken.

3.30 It is important that assessment and decision-making processes be timely as well as involve appropriate due diligence of funding candidates. Previous Auditor-General performance audit reports have identified that, for election commitment projects, there can be a particular risk involved where insufficient information is obtained for assessment and/or inadequate time is taken to appropriately scrutinise the information that has been obtained.¹³

3.31 The degree to which project proponents met the department's requested timeframes for providing information for assessment declined over time. As illustrated by Table 3.3, the significant majority (89 per cent) of project proposals were submitted within the six month timeframe for the 2013 election commitment projects. The compliance rate was much lower for the identified 2016 election commitments, where the requested information for some 37 per cent of candidate projects was submitted after the required three month period.

Table 3.3: Submission of Project Proposal forms

Project type	Number of projects	Project Proposal submitted within nominated timeframe	Greater than nominated timeframe	Department did not record the date
2013 Election Commitments (submission within six months)				
2013 election commitments	221	200	8	13
RDAF/CIG ¹⁴	66 (6 submitted)	6	0	n/a
Government commitments	14	9	0	5
Total	301 (241)	215 (89%)	8 (3%)	18 (8%)
2016 Election Commitments (submission within three months)				
2016 election commitments	456	254	176	26
Latrobe Valley Local Jobs and Infrastructure	14	6	2	6
Government commitments	18	7	1	10
Total	488	267 (55%)	179 (37%)	42 (9%)

Source: ANAO analysis of departmental records.

3.32 On average, it took six and a half months from when it first sought information on a project from the proponent for assessment advice to be provided by the department to the Minister. As illustrated by Figure 3.1, around half of this time was typically taken by project proponents to

13 For example, see Auditor-General Report No.14 2007–08, *Performance Audit of the Regional Partnerships Program*, Volume 2 pp. 103–121 and Auditor-General Report No.41 2014–15, *The Award of Funding Under the Safer Streets Program*, pp. 98–140.

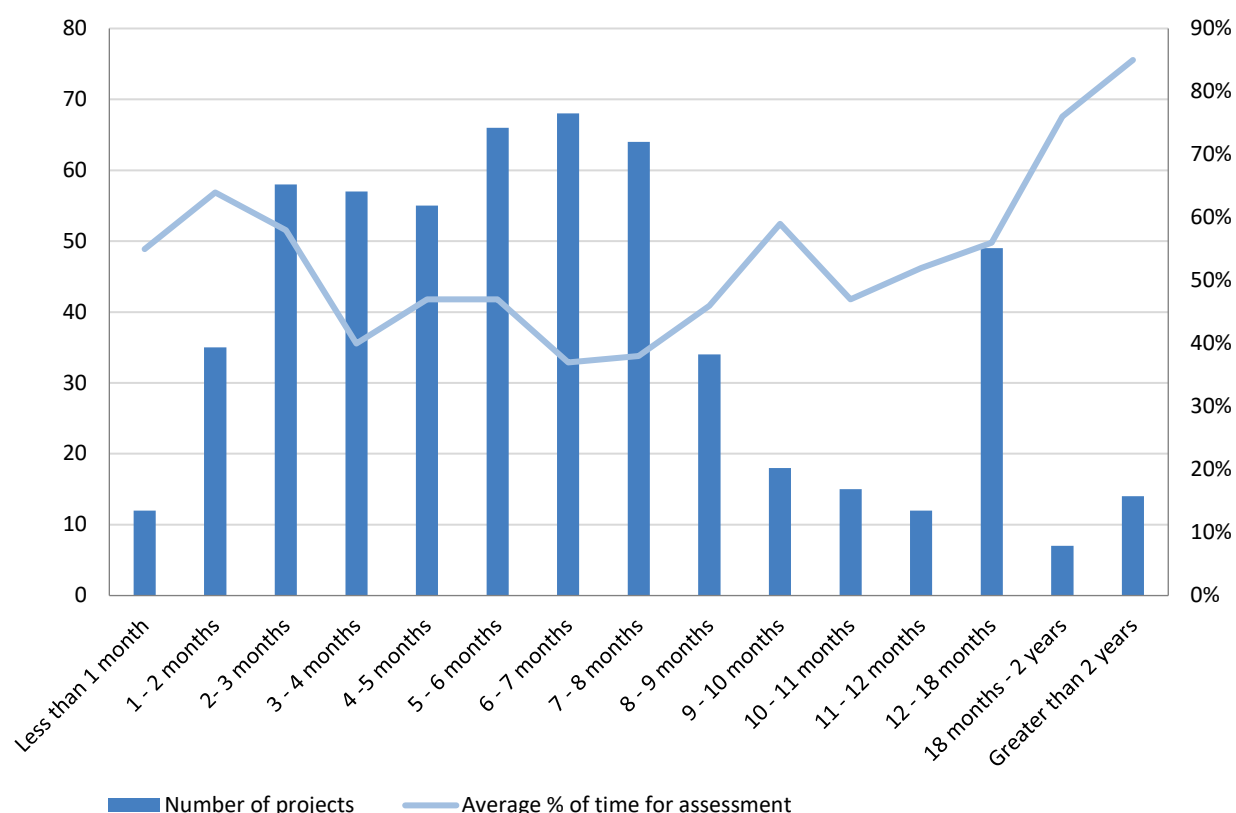
14 As per the CDGP guidelines, if identified projects have been assessed as value for money under the RDAF and CIG Program, they were deemed to have fulfilled the eligibility and appraisal criteria under the CDGP. According to departmental records and ANAO analysis, of the 66 projects, two RDAF projects and four CIG projects provided the department with a Project Proposal form and supporting information.

respond to the department's request for information to assess (by completing the Project Proposal/Request for Information forms along with supporting information) with the remaining time involving departmental assessment activity (including seeking further or missing information from project proponents). In June 2018, the department advised the ANAO of the approach it took where project proponents had not provided sufficient information, as follows:

We do not put forward a project for approval until we have sufficient information to make an assessment, as evidenced by the fact that we still have nine 2013 election commitments and seventy-seven 2016 election commitments yet to be considered by the Minister for funding, as we have insufficient information.

While it is within the rights of the Australian Government to withdraw these commitments where insufficient information has not been provided to enable assessment in the relevant timeframe, it has not been the practice of successive governments to withdraw funding for such projects without the agreement of the proponent. As further evidence of the Department's efforts to diligently seek the information needed on the 'yet to be assessed' projects, former Minister Fiona Nash wrote to the project proponents in October 2017 to again encourage information to be provided and the Department continues to keep in contact with proponents to gain information that would enable assessment.

Figure 3.1: Timeliness of processes to obtain and assess information from proponents



Source: ANAO analysis of departmental records.

3.33 On average it took a Minister ten days to consider the department's assessment briefing for a project and make a funding decision.¹⁵



Grant Hehir
Auditor-General

Canberra ACT
22 August 2018

¹⁵ There were nine projects where the funding decision was made on the same day as the department had provided its briefing, with the maximum time taken for a decision on any project being 80 days.

Appendices

Appendix 1 Entity response



Australian Government

Department of Infrastructure, Regional Development and Cities

**Secretary
Dr Steven Kennedy PSM**

PDR ID: EC18-001045

Mr Grant Hehir
Auditor-General
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Mr Hehir

Audit of Community Development Grants Programme

Thank you for providing the Department of Infrastructure, Regional Development and Cities with the opportunity to comment further on the Australian National Audit Office's (ANAO) proposed report on the Award of Funding under the Community Development Grants Programme.

The Department welcomes the ANAO's conclusions and agrees with the recommendation.

Yours sincerely


Steven Kennedy

2 August 2018

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