The Auditor-General
Auditor-General Report No.12 2019–20
Performance Audit

Award of Funding Under the Regional Jobs and Investment Packages

Department of Infrastructure, Transport, Cities and Regional Development

Department of Industry, Innovation and Science

Australian National Audit Office

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Senior Executive Director
Corporate Management Group
Australian National Audit Office
19 National Circuit
BARTON ACT 2600

Or via email:
communication@anao.gov.au.

Canberra ACT

5 November 2019

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, Transport, Cities and Regional Development and the Department of Industry, Innovation and Science. The report is titled *Award of Funding Under the Regional Jobs and Investment Packages.* 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.

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

Grant Hehir
Auditor-General

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

AUDITING FOR AUSTRALIA

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

For further information contact:
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Phone: (02) 6203 7300
Fax: (02) 6203 7777
Email: ag1@anao.gov.au

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http://www.anao.gov.au

Audit team

Chirag Pathak
Tiffany Tang
Brian Boyd

Contents

Audit snapshot

Auditor-General Report No.12 2019–20

Award of Funding Under the Regional Jobs and Investment Packages

Why did we do this audit?

- Outsourcing grants administration presents risks relating to assurance of quality, compliance and accountability.
- There has been parliamentary interest in funding awarded through this program.

Key facts

- More than 700 applications for grant funding were received across the 10 regions, with 233 grants approved.
- Funding allocations were set for each region. Most regions received $20 million, with $30 million the most received by any one region.
- The Business Grants Hub within the Department of Industry, Innovation and Science was engaged to administer key aspects of the program. The assessment process was outsourced by the Hub to a contractor.
- Funding decisions were made by a panel of Ministers. The Ministerial Panel did not approve 28 per cent of applications that had been recommended and instead approved 17 per cent of applications that had not been recommended.

What did we conclude?

- The Department of Infrastructure, Transport, Cities and Regional Development gave comprehensive briefings to the Ministerial Panel on the assessment results.
- Eligibility and merit assessment processes were not to an appropriate standard. The Ministerial Panel most often cited incorrect scoring by assessors as the reason for not agreeing with departmental funding recommendations. Those applications were not re-scored.

What did we recommend?

- The Auditor-General made three recommendations relating to: assessments of exemption requests; re-scoring of applications when decision-makers record that the assessment scoring is wrong; and review and improvement of assessment practices and procedures when decision-makers indicate there are frequent errors.
- The Department of Infrastructure, Transport, Cities and Regional Development agreed with all three recommendations.

$220.5 million

was awarded to 233 projects with estimated total project costs of $688.3 million.

28%

of recommended applications were not funded.

Summary and recommendations

Background

1. The Regional Jobs and Investment Packages (RJIP) is a competitive grants program that was established to drive economic growth and create jobs in 10 regions across five States:

- QLD: Bowen Basin, Tropical North Queensland, Wide Bay Burnett;
- NSW: North Coast, South Coast;
- SA: Upper Spencer Gulf;
- VIC: Geelong, Goulburn Valley, Latrobe Valley; and
- TAS: Regional Tasmania.

2. The program originated from a 2016 election commitment to establish a $200 million program to deliver regional jobs and growth, with the expectation of leveraging a further $200 million or more in matched funding. The 2016 Mid-Year Economic and Fiscal Outlook separately identified a further $20 million Regional Jobs and Investment Package for the Latrobe Valley region. A further $2.3 million was transferred to RJIP from the uncommitted funds in the Tasmanian Jobs and Investment Fund.

3. Program guidelines were issued in March 2017 covering the 10 regions with funding identified as available in three streams (local infrastructure, business innovation and skills and training). The guidelines quantified the amount available in each region as being $30 million for the Bowen Basin in Queensland, $25 million each for the North Coast of New South Wales and Regional Tasmania, and $20 million each for the other seven regions.

4. The importance of the grant funding leveraging funding from other sources was emphasised in the establishment of the program. Consistent with this, the program guidelines stated that grant funding will be up to 50 per cent of eligible project costs and that applicants were required to provide co-funding towards their project, to demonstrate their commitment to the project. The guidelines set out that applicants from the non-business streams could apply for a co-funding exemption if they could demonstrate 'exceptional circumstances', that the applicant needed to present a 'very strong case' and that it would be 'rare' for an exemption to be granted.

5. Applications were open between 31 May 2017 and 15 August 2017 for six regions (cohort 1), between 10 August 2017 and 19 October 2017 for three regions (cohort 2) and between 8 September 2017 and 17 November 2017 for one region (cohort 3). The application period for cohort 1 originally closed on 31 July 2017 but was extended by two weeks to allow more time for applications to be submitted (during which time applicants who had already submitted an application were able to withdraw and resubmit).

6. In total, 233 projects were awarded $220.5 million in grant funding across the 10 regions. The grants represent 32 per cent of the estimated total project costs of $688.3 million. Of the 233 approved projects, four (seeking in total $1.74 million in grant funding) sought and received approval to be exempted from the co-funding requirement.

7. Administration of the program is the responsibility of the Department of Infrastructure, Transport, Cities and Regional Development (Infrastructure). Infrastructure engaged the Business

Grants Hub within the Department of Industry, Innovation and Science (Industry) to administer key aspects of the program. This included receipt and assessment of applications, and execution and monitoring of grant agreements. The assessment process was outsourced by Industry at a cost of $3.15 million to a contractor accessed under a standing deed for contact centre services.

Rationale for undertaking the audit

8. Infrastructure administers significant grant funding including in areas such as regional development and cities and predominantly manages this funding through the Business Grants Hub. Outsourcing grants presents risks relating to assurance of quality, compliance and accountability. ANAO audit activity has also highlighted risks where assessment of grant applications does not verify the claims of applicants or ensure the assessment criteria are applied in full.

9. Undertaking an audit of this grant program addresses Parliamentary interest. RJIP was included in the JCPAA's list of audit priorities for 2018–19 and the Auditor-General received correspondence from Mr Stephen Jones MP and Dr Mike Kelly MP.[1]

Audit objective and criteria

10. The objective of the audit was to assess whether the award of funding under the RJIP program was informed by appropriate departmental advice and that processes complied with the grants administration framework.

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

- Were applications soundly assessed in accordance with the program guidelines?
- Were funding decisions supported by clear advice and consistent with requirements?

Conclusion

12. Advice provided by the Department of Infrastructure, Transport, Cities and Regional Development was largely appropriate, however the assessment processes were not to the standard required by the grants administration framework.

13. Applications were not soundly assessed in accordance with the program guidelines. The eligibility requirements were not applied in full, and there are indications of shortcomings in the assessment of the merit criterion most directly related to the program outcomes. Requests for co-funding exemptions were not appropriately considered and conflict of interest management was not to a consistently appropriate standard. It is not clear that the documented assessment procedures were sufficiently well developed, and there is insufficient evidence that each of the more than 60 individuals that undertook the assessments received adequate training.

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1 Refer to correspondence from Mr Stephen Jones MP available at https://www.anao.gov.au/work/request/regional-jobs-and-investment-package-tropical-north-queensland and from Dr Mike Kelly available at https://www.anao.gov.au/work/request/regional-jobs-and-investment-package-south-coast-new-south-wales.

14. Decisions taken on the award of grant funding were supported by clear advice and consistent with the requirements of the grants administration framework. The Department of Infrastructure, Transport, Cities and Regional Development provided the Ministerial Panel with comprehensive written briefings to inform the award of grant funding in each of the 10 regions. The briefings included clear funding recommendations that were based on the results of the assessment of applications undertaken. The briefing approach promoted accountability by identifying to decision-makers the requirement for them to record the reasons for awarding funding to applications that had not been recommended. The approach to the overturn decisions did not include re-scoring of applications that the Panel identified as having been incorrectly scored, and the grants administration framework does not require that decisions to approve not recommended projects be reported annually to the Finance Minister (only those that are specifically recommended for rejection).

Supporting findings

Application assessment

15. Ineligible applications were identified but not all of those identified were removed from further consideration. Twelve applications, fewer than two per cent of those assessed, were identified as ineligible. Of those 12, one was approved for funding. There were 19 late applications of which 10 were approved to continue on the basis that they had not met the deadline due to issues with Industry's system. There was no record made of why the other nine were not excluded from further consideration (five of these were approved for funding). Various other eligibility requirements relating to the content of applications were not consistently applied. Requirements relating to being located in a RJIP region, an eligible applicant and eligible activities and expenditure were applied.

16. Co-funding exemptions were not appropriately considered. Infrastructure did not assess each exemption request against the program guidelines[2], nor did it provide a recommendation on each request to the Panel that was consistent with any assessment that was undertaken. Four of the 16 applications where the applicant had made a co-funding exemption request (two per cent of all applications received) were awarded a total of $1.74 million in grant funding.

17. The published merit criteria were applied to inform an assessment of the value for money of each candidate project. The scoring and weighting for the criteria was transparent and enabled the merit assessed applications to be ranked against the published criteria.

18. Appropriate checks and controls were not in place for eligibility and merit assessments. The records of eligibility checking were not complete for each application and there were also internal inconsistencies for some applications. There were shortcomings in the assessments undertaken against the second merit criterion. This criterion was directly relevant to the program achieving its intended economic outcomes, including in relation to job creation. An assurance review contracted by Infrastructure identified that applicant claims were being taken at face value without appropriate scrutiny. In relation to this criterion and two of the three other criteria, the

2 The program guidelines had stated that applicants would need to present 'a very strong case' to have their exemption request granted.

Panel recorded that more than 20 per cent of applications had been incorrectly scored by the assessors.

19. Conflict of interest management was not to a consistently appropriate standard as described in the Commonwealth Grants Rules and Guidelines:

- Infrastructure developed a framework that required Local Planning Committee members to declare perceived and actual conflicts of interests but there were various shortcomings in the implementation of this framework that resulted in errors and missing declarations. Advice on how to appropriately manage the declared conflicts was not provided by Infrastructure to Committee members that declared a conflict;
- the program guidelines foreshadowed that grant applicants would be required to declare whether they had any conflicts but the application form did not follow through and require applicants to actually do this;
- Commonwealth staff working on the program were covered through departmental policies. Infrastructure's policy on declarations was limited to SES staff and non-SES staff working on RJIP were not required to make any declarations; and
- there were no conflicts declared by any of the contractors who played a key role in the assessment of applications. Contractors were not required to sign a written declaration that they had no conflicts with reliance instead placed on the absence of any declared conflicts as sufficient evidence that no conflicts existed.

Funding decisions

20. Written advice was provided by Infrastructure to the Ministerial Panel on the individual and relative merits of competing applications that had been assessed as eligible. This included providing the Panel with the assessment score for each application against each criterion, the total score and where the application ranked relative to other competing applications.

21. Clear funding recommendations were provided to the Panel by Infrastructure. The department identified the 232 applications it was recommending be awarded a total of $219.7 million in program funding.

22. Infrastructure's funding recommendations for each region drew on the results of the competitive assessment process set out in the program guidelines as well as being consistent with the funding limits published for each region.

23. Reasons for funding decisions were documented. There was a high incidence of funding recommendations not being agreed to with the Ministerial Panel not approving 28 per cent of applications the department had recommended, and instead approving 17 per cent of applications that had not been recommended (the proportion of overturn decisions increased over time). Typically, where the decision was to not award funding for a project the department recommended be approved, or to approve funding for a project the department had not recommended, the recorded reasons identified which criteria the Ministerial Panel considered had been scored incorrectly. The Panel records did not include a re-scoring of those applications. This adversely affected accountability as it meant there was not a clear line of sight between the departmental assessment results, the subsequent adjustments by the Ministerial Panel and the funding decisions.

24. There was no bias clearly evident in the assessment and decision-making processes. Decisions to not approve recommended applications occurred in two Queensland regions at a rate more than three times the average across the other eight regions; these decisions affected five electorates each of which was held by the Coalition.

Recommendations

Recommendation no. 1
Paragraph 2.27

The Department of Infrastructure, Transport, Cities and Regional Development transparently assess and provide clear advice to decision-makers on whether any exemption requests permitted under grant program guidelines should be granted, and why.

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

Recommendation no. 2
Paragraph 2.57

In circumstances where there is a high incidence of grant decision-makers indicating disagreement with the assessment and scoring of applications against published criteria, the Department of Infrastructure, Transport, Cities and Regional Development require, in consultation with any service provider, that assessment practices and procedures be reviewed to identify whether there are any shortcomings and, if appropriate, make adjustments.

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

Recommendation no. 3
Paragraph 3.18

The Department of Infrastructure, Transport, Cities and Regional Development implement processes for decision-makers to re-score grant applications in circumstances where they disagree with the scoring presented by the department.

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

Summary of entity response

25. The proposed audit report was provided to the Department of Infrastructure, Transport, Cities and Regional Development and the Department of Industry, Innovation and Science. Each department provided a summary response that is set out below. Full responses from both the entities are reproduced at Appendix 1.

Department of Infrastructure, Transport, Cities and Regional Development

> The Department of Infrastructure, Transport, Cities and Regional Development (the Department) welcomes the ANAO report and agrees with its recommendations.
>
> The ANAO report reaches similar conclusions to the assurance review commissioned by the Department in May 2018.
>
> Following announcement of the last of the successful projects under RJIP in April 2018, the Department engaged Yarrabee Consulting to assess and provide assurance on the extent to which

the RJIP was conducted in accordance with the Commonwealth Grant Rules & Guidelines (CGRGs), and better practice. The review was also commissioned to consider the quality of the advice provided to the Government in light of the divergence of the Ministerial Panel’s decisions from the Department’s recommendations.

Yarrabee Consulting provided its report in July 2018. It identified a number of areas for consideration, including how ineligible applications are handled, how conflict of interest issues were managed across the various stages of the RJIP process, and the need to improve the assessment of applicants’ economic benefit claims (employment claims). The report also included recommendations regarding achieving greater assurance of the Hub’s merit assessments and better managing the department’s recommendations process.

The Department has implemented the learnings from the assurance review into other funding programs, including the Building Better Regions Fund (BBRF) and the Regional Growth Fund (RGF) and, together with the findings from the ANAO’s audit report, will continue to do so with future programs.

Department of Industry, Innovation and Science

The Department of Industry, Innovation and Science acknowledges the Australian National Audit Office's report on Award of Funding under the Regional Jobs and Investment Packages and the messages for all entities regarding governance, risk management and quality assurance for granting processes. As a shared service provider for Commonwealth grants through the Business Grants Hub (BGH), the department will disseminate those messages to partner agencies, as well as incorporate them into grants administration practice.

The department notes the ANAO's findings in relation to the assessment processes for the Regional Jobs and Investment Packages program. The program was one of the first to be delivered through the BGH and was the first program to use an outsourced assessment arrangement through a third party provider. Since the Regional Jobs and Investment Packages program was delivered in 2017, the BGH has implemented a number of improvement activities. Further enhancements are underway and will address the issues raised by the ANAO in this report.

Key messages from this audit for all Australian Government entities

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

Governance and risk management

- Consistent with the accountability principles of the *Public Governance, Performance and Accountability Act 2013*, the entity allocated responsibility for the design and implementation of a program is accountable for the quality of any work undertaken by other entities to deliver the program. This includes the activities of contractors as well as whole of government shared services arrangements and service delivery hubs.
- Departmental staff should make program specific conflict of interest declarations in addition to any general declarations required as part of their employment with the Australian Public Service.

Grants

- The implementation of quality assurance arrangements, in addition to appropriate training and guidance materials for assessors, can help ensure assessment work is of a consistently high standard. One approach to quality assurance is for a second assessor to review the primary assessments. Another approach is to have a panel of persons with appropriate experience and expertise, potentially including external members, review the assessments before they are finalised and funding recommendations made to decision-makers.
- Programs with more than one stage of assessment, such as eligibility assessments followed by merit assessments, should take into account efficiency considerations when allocating work to assessors. Different assessors for each stage means more time is spent than may be necessary having each assessor familiarising themselves with the application.
- Where a decision-maker reaches a conclusion that differs from the department's recommendations, the rationale for those divergences should be recorded in sufficient detail to allow entities to improve future assessments or processes, and to provide appropriate feedback to applicants.

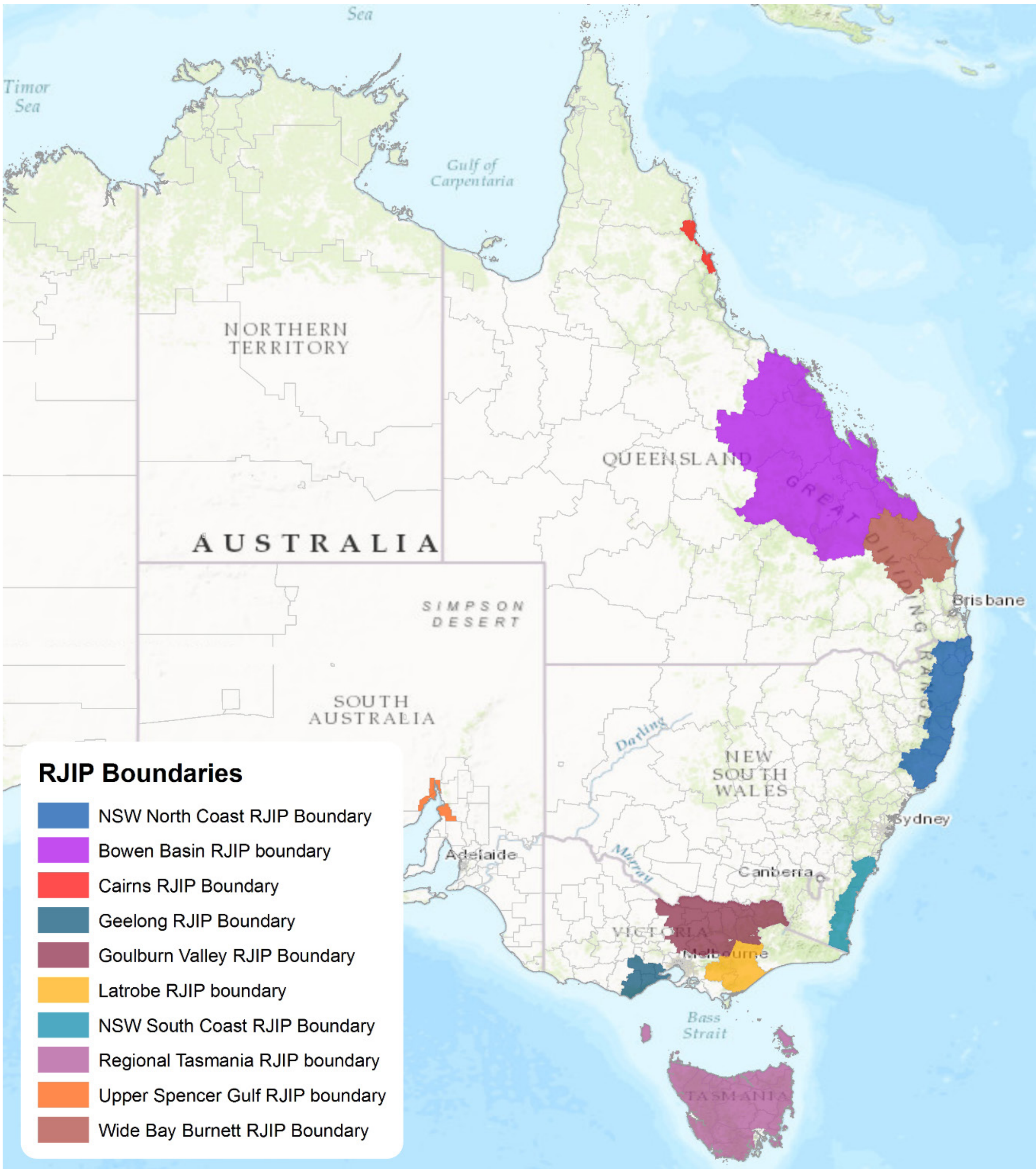
Audit findings

1. Background

Introduction

1.1 The Regional Jobs and Investment Packages (RJIP) is a competitive grants program that was established to drive economic growth and create jobs in 10 regions across five States (see Figure 1.1).

Figure 1.1: The 10 RJIP regions across five Australian States



Note: The Department of Infrastructure, Transport, Cities and Regional Development has used 'Cairns' interchangeably with 'Tropical North Queensland' to refer to the same region.

Source: The Department of Infrastructure, Transport, Cities and Regional Development.

1.2 The program originated from a 2016 election commitment to establish a \$200 million program to deliver regional jobs and growth, with the expectation of leveraging a further \$200 million or more in matched funding. Program funding of \$200 million across the four years to 2019–20 was included in the December 2016 Mid-Year Economic and Fiscal Outlook (MYEFO) for spending in nine regions, with matched funding to come from state and local government and the private sector. The 2016 MYEFO separately identified a further \$20 million Regional Jobs and Investment Package for the Latrobe Valley region following the closure of the Hazelwood mine and power station (as part of a \$43 million package for that region over the four years to 2019–20). A further \$2.3 million was transferred to RJIP from uncommitted funds in the Tasmanian Jobs and Investment Fund.

1.3 Program guidelines were issued in March 2017 covering the 10 regions with funding identified as available in three streams (local infrastructure, business innovation and skills and training). The guidelines quantified the amount available in each region as being \$30 million for the Bowen Basin in Queensland, \$25 million each for the North Coast of New South Wales and Regional Tasmania, and \$20 million each for the other seven regions.

1.4 The guidelines identified that a Local Planning Committee for each region would be appointed by the Minister for Regional Development (the Minister). Each Committee was to develop a Local Investment Plan and submit it to the Minister and applications for funding would open in each region after the relevant Plan had been published.[3] Applicants were advised that, to be competitive for funding, they would need to demonstrate that their project aligns with the industry growth sectors, new market opportunities and future workforce needs outlined in the relevant region's Local Investment Plan.[4]

1.5 Administration of the program is the responsibility of the Department of Infrastructure, Transport, Cities and Regional Development (Infrastructure). Infrastructure engaged the Business Grants Hub within the Department of Industry, Innovation and Science (Industry) to administer key aspects of the program. Under a Memorandum of Understanding signed in July 2017, Infrastructure is scheduled to pay \$8.078 million to Industry for:

- assisting with program design, including helping to develop a new policy proposal accompanied by program logic and program costing, development of the program guidelines along with governance arrangements, an implementation plan, a risk assessment and the development of performance indicators and a reporting and evaluation framework;
- operationalising the assessment framework for the program including conducting the assessment process, identifying recommended recipients, providing feedback to applicants and confirming successful recipients;
- the negotiation and execution of funding agreements with grant recipients; and

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3 Applications were open between 31 May 2017 and 15 August 2017 for six regions (cohort 1), between 10 August 2017 and 19 October 2017 for three regions (cohort 2) and between 8 September 2017 and 17 November 2017 for one region (cohort 3). The application period for cohort 1 originally closed on 31 July 2017 but was extended by two weeks to allow more time for applications to be submitted (during which time applicants who had already submitted an application were able to withdraw and resubmit).

4 Consistent with this guidance, the first merit criterion was the extent to which the project addressed the Local Investment Plan's investment sectors and strategic priorities.

- ongoing management of the program and grant recipients, including monitoring performance, dealing with breaches and any allegations of fraud. Industry is also to manage variations to agreements. Infrastructure makes payments to recipients upon receipt of a request to do so by Industry.

1.6 The assessment process was outsourced by Industry at a cost of $3.15 million to a contractor accessed under a standing deed for contact centre services. The arrangement was established for contact centre services, not the assessment of grant applications, with the contract for assessment of RJIP applications incorrectly described by Industry on the Austender website as being for 'professional recruitment services'.

1.7 In May 2018, Infrastructure engaged a consultant via a limited tender at a cost of $61,050 to assess and provide assurance on the extent to which the RJIP was conducted in accordance with the Commonwealth Grant Rules and Guidelines (CGRGs) and better practice.

Application assessment and approval processes

1.8 The program guidelines also set out the application assessment and approval processes. This included:

- eligibility requirements and four weighted merit criteria;
- advising that only eligible applications would proceed to merit assessment and that, while all eligible applications would be assessed against the same merit criteria, each application would be scored relative to the project size, complexity and grant amount requested;
- outlining that departmental advice would be provided to a Ministerial Panel on eligible applications along with recommendations on which projects to fund; and
- identifying that the Panel would decide which applications to fund, taking into account departmental recommendations and the availability of grant funding as well as 'other factors' such as:
  - the balance of local infrastructure, business innovation and skills and training projects in the region;
  - other projects or planned projects in the region, and the extent to which the proposed project may duplicate those projects or complement them and the services that they offer; and
  - the level of funding allocated to an applicant in previous programs.

1.9 Infrastructure provided each member of the Ministerial Panel with two written briefings for each region. The first was a funding recommendations briefing that identified the projects the department recommended be awarded funding. Subsequent to the Panel making its funding decisions, a further written briefing was provided by Infrastructure to the Panel so as to have a record made of those decisions, including the reasons for any decisions that differed from the departmental recommendations. Table 1.1 identifies the key dates in the award of funding for each of the regions.

Table 1.1: Key dates in the award of funding by region

<table>
<tr><th>Region</th><th>Application period</th><th>Funding recommendations brief</th><th>Panel meeting date(s)</th><th>Funding approval recorded</th></tr>
<tr><td>Geelong (Vic.)</td><td rowspan="6">31 May – 15 August 2017</td><td rowspan="3">2 November 2017</td><td rowspan="3">29 November 2017</td><td rowspan="3">18 December 2017</td></tr>
<tr><td>North Coast (NSW)</td></tr>
<tr><td>South Coast (NSW)</td></tr>
<tr><td>Bowen Basin (Qld)</td><td rowspan="6">5 February 2018</td><td rowspan="2">7 February 2018</td><td>19 April 2018</td></tr>
<tr><td>Tropical North Qld (Qld)</td><td>20 March 2018</td></tr>
<tr><td>Wide Bay Burnett (Qld)</td><td>7 February and 1 March 2018</td><td rowspan="3">19 April 2018</td></tr>
<tr><td>Upper Spencer Gulf (SA)</td><td rowspan="3">10 August – 19 October 2017</td><td rowspan="2">1 March 2018</td></tr>
<tr><td>Goulburn Valley (Vic.)</td></tr>
<tr><td>Regional Tasmania (Tas.)</td><td>7 February 2018</td><td>20 March 2018</td></tr>
<tr><td>Latrobe Valley (Vic.)</td><td>8 September – 17 November 2017</td><td>12 February 2018</td><td>1 March 2018</td><td>19 April 2018</td></tr>
</table>

Note: Regions listed in order in which application period opened.

Source: ANAO analysis of departmental records.

1.10 In total, 233 projects were awarded $220.5 million in grant funding across the 10 regions (see Table 1.2). The grants represent 32 per cent of the estimated total project costs of $688.3 million. Of these 233 projects, four (seeking in total $1.74 million in grant funding) sought and received approval to be exempted from the co-funding requirement (see further details at paragraphs 2.16 to 2.26).

Table 1.2: Applications received and approved by region

Region	Applications received	Projects Funded	Funding awarded ($m)
Geelong	56	21	19.99
North Coast	86	23	24.34
South Coast	78	30	19.84
Tropical North Qld	48	21	19.69
Regional Tasmania	152	49	27.18
Bowen Basin	83	17	29.99
Wide Bay Burnett	73	13	19.73
Upper Spencer Gulf	26	9	19.89
Goulburn Valley	44	31	19.89
Latrobe Valley	56	19	19.97
Total	**702**	**233**	**220.51**

Note: Regions listed in order in which funding was approved.

Source: ANAO analysis of departmental records.

1.11 The Ministerial Panel was constituted differently for the first three regions for which funding decisions were made (Geelong, NSW North and South Coast) than for the remaining seven regions. For the first three regions, the Panel was chaired by The Hon Darren Chester MP (Minister for Infrastructure and Transport) with three other members (Senator The Hon Michaelia Cash, Minister for Employment; The Hon Michael McCormack MP, Minister for Small Business; and Senator The Hon James McGrath MP, Assistant Minister to the Prime Minister). For the remaining regions, the Panel was chaired by The Hon Dr John McVeigh MP (Minister for Regional Development, Territories and Local Government) with Senator The Hon Bridget McKenzie (Minister for Regional Communications; Minister for Rural Health; Minister for Sport) replacing Senator Cash as a Panel member.

Rationale for undertaking the audit

1.12 Infrastructure administers significant grant funding including in areas such as regional development and cities and predominantly manages this funding through the Business Grants Hub. Outsourcing grants presents risks relating to assurance of quality, compliance and accountability. ANAO audit activity has also highlighted risks where assessment of grant applications does not verify the claims of applicants or ensure the assessment criteria are applied in full.[5]

5 Auditor-General Report No.30 of 2016–17 *Design and Implementation of Round Two of the National Stronger Regions Fund*; and Auditor-General Report No.3 of 2018–19 *Award of Funding under the Community Development Grants Program*.

1.13 Undertaking an audit of this grant program addresses Parliamentary interest. RJIP was included in the JCPAA's list of audit priorities for 2018–19 and the Auditor-General received correspondence from Mr Stephen Jones MP and Dr Mike Kelly MP.[6]

Audit approach

Audit objective, criteria and scope

1.14 The objective of the audit was to assess whether the award of funding under the RJIP program was informed by appropriate departmental advice and that processes complied with the grants administration framework.

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

- Were applications soundly assessed in accordance with the program guidelines?
- Were funding decisions supported by clear advice and consistent with requirements?

1.16 The audit scope included applications received and assessed and funding decisions taken for each of the 10 regions. This included: the development of program guidelines and related material; the assessment of applications against the eligibility and merit criteria; the advice provided to decision-makers; and the decision-making process of the Ministerial Panel.

Audit methodology

1.17 Key elements of the audit methodology involved examination of program data and documents against the requirements of the CGRGs, published program guidelines and other program material, along with interviews of relevant staff.

1.18 The audit was conducted in accordance with ANAO auditing standards at a cost to the ANAO of $362,000.

1.19 Team members for this audit were Chirag Pathak, Tiffany Tang and Brian Boyd.

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6 Refer to correspondence from Mr Stephen Jones MP available at https://www.anao.gov.au/work/request/regional-jobs-and-investment-package-tropical-north-queensland and from Dr Mike Kelly available at https://www.anao.gov.au/work/request/regional-jobs-and-investment-package-south-coast-new-south-wales.

2. Application assessment

Areas examined
This chapter examines whether applications were soundly assessed by the department in accordance with the program guidelines.

Conclusion
Applications were not soundly assessed in accordance with the program guidelines. The eligibility requirements were not applied in full, and there are indications of shortcomings in the assessment of the merit criterion most directly related to the program outcomes. Requests for co-funding exemptions were not appropriately considered and conflict of interest management was not to a consistently appropriate standard. It is not clear that the documented assessment procedures were sufficiently well developed, and there is insufficient evidence that each of the more than 60 individuals that undertook the assessments received adequate training.

Areas for improvement
The ANAO has made two recommendations. The first is aimed at sound processes being implemented to consider and advise decision-makers on any exemption requests permitted under grant program guidelines. The second suggests that feedback from decision-makers that indicates assessments are often in error be used to consider whether assessment procedures require improvement.

Were ineligible applications identified and removed from further consideration?

Ineligible applications were identified but not all of those identified were removed from further consideration. Twelve applications, fewer than two per cent of those assessed, were identified as ineligible. Of those 12, one was approved for funding. There were 19 late applications of which 10 were approved to continue on the basis that they had not met the deadline due to issues with Industry's system. There was no record made of why the other nine were not excluded from further consideration (five of these were approved for funding). Various other eligibility requirements relating to the content of applications were not consistently applied. Requirements relating to being located in a RJIP region, an eligible applicant and eligible activities and expenditure were applied.

Eligibility criteria

2.1 The eligibility criteria that applicants needed to satisfy in order to compete for RJIP funding were clearly set out in the published program guidelines. The criteria are summarised below:

- that the project be located within an eligible RJIP region, or that the applicant demonstrates that the project will directly benefit a region and aligns with that region's Local Investment Plan;
- identifying the types of entities that were eligible and those that were not eligible (these requirements were different for each funding stream);
- for each stream, the types of eligible projects, activities and expenditure; and

- a requirement to provide evidence of funding commitments from other funding contributors (if applicable) and an Accountant Declaration using the supplied form that confirmed the applicant could fund its share of project costs.

2.2 The program guidelines stated that 'We cannot consider your application if you do not satisfy all eligibility criteria'. They also stated that the eligibility criteria could not be waived 'under any circumstances'.

Applications assessed as ineligible

2.3 The program guidelines were used to develop the Assessment Procedures and the Eligibility Assessment Templates. The procedures and templates were consistent with the requirements in the guidelines.

2.4 Of the 634 applications assessed against the eligibility requirements, 12 (two per cent) were identified as ineligible.

2.5 Ineligible applicants were given the opportunity to submit a case to support why they should not be considered ineligible. Two ineligible applicants took up this opportunity. The assessment that those two applications were ineligible did not change.

2.6 Funding briefings provided by Infrastructure to the Panel identified (either in the body of the briefing or an attachment) those applications in the region that had been assessed as ineligible, and the reason for this assessment. Those applications were not ranked by the department.

2.7 A common eligibility criterion across the three streams was that the applicant should not be a Registered Training Organisation (RTO), higher education provider or Technical and Further Education body. Of the 12 applications assessed as ineligible, five were in this category. Four of these were removed from further consideration. One applicant who was a RTO was merit assessed and approved for funding. In June 2019, Infrastructure advised the ANAO that this application:

> was merit assessed because the Minister's Office showed a strong preference to fund this project, as it deemed the RTO element of the proponent's business to be incidental to the project seeking funding under RJIP. The Department requested the assessment to better understand the project in order to appropriately advise the Minister.

2.8 Steps were not taken to identify whether the training element could also have been considered 'incidental' for any of the other four applications assessed as ineligible for this reason.

Late applications

2.9 The program guidelines outlined that applications could only be submitted during a funding round. The program guidelines also provided applicants with information on where to obtain the closing date and time for each region.

2.10 Nineteen applications were received after the relevant closing date. Approval was sought by Industry from its internal Program Delegate to accept 10 of these applications due to technical issues with the system. These 10 applications progressed to merit assessment and one was approved for funding for $3.4 million. For the remaining nine late applications, no reasons were recorded or documentation provided as to why they were accepted (despite being received between one to six days after the relevant application period closed). They nevertheless proceeded to be assessed. Five were approved for funding totalling $3.6 million.

Compliance with the eligibility criteria

2.11 Requirements relating to being located in a RJIP region, an eligible applicant and eligible activities and expenditure were applied. Other eligibility criteria, such as evidence of support from the board or equivalent, Accountant Declaration, verification of funding contributions from other contributors or project plans were relaxed for 300 applications by progressing those applications to merit assessment. In June 2019, Industry advised the ANAO that this was done because if the guidelines were applied strictly a large number of applications would have been assessed as ineligible.

2.12 Eligibility criteria 5 and 6 were common across all three streams. They had the largest number of issues noted by the assessors (see Table 2.1).

Table 2.1: Two eligibility criteria with the largest number of issues

Criteria	Number of applications with issues
Eligibility criterion 5 Has the applicant provided evidence from its board or equivalent stating that: • the proposed project is supported; • the proposed project will be ready to commence within 12 weeks of executing an agreement; • the applicant can complete the project and meet the costs of the project not covered by grant funding?	127 applications
Eligibility criterion 6 Has the applicant provided an Accountant Declaration to confirm that it can meet its share of the project costs, on the required template?	193 applications

Source: ANAO analysis of departmental records.

2.13 Assessors identified that 127 applications had an issue with the requirements for the letter from the board or its equivalent. Issues for this criteria included a letter from the board or its equivalent not being provided, a letter being provided but incomplete, the wrong person signing the letter or the assessors accepting a project plan as a replacement for the letter. Only 34 (27 per cent) of these applications were marked in the assessment forms as having failed the criterion with the remaining 93 (73 per cent) assessed as having met the criterion. In five cases the assessors contacted the applicant in relation to the issues identified and in three cases the applicant resent a document that was subsequently assessed as acceptable. For one application an assessor noted that 'The grant applicant may need to be contacted to send through an amended Board/CEO support letter.' The applicant was not contacted and the following comment was noted in the assessment form 'Cover in merit the intent is there that the CEO is supporting the project'.

2.14 There were 193 applications where issues were identified with the requirement for an Accountant Declaration. Issues included missing Accountant Declarations, declaration not provided as per the guidelines, declaration with incorrect figures or declaration incomplete (missing signature or other required information). Only 16 (eight per cent) were marked in the assessment forms as having failed the criterion with the remaining 177 (92 per cent) assessed as having met the criterion. From the 193 applications with issues identified, the assessors contacted the applicant on 51 occasions (26 per cent) and 17 of those 51 proceeded to merit assessment without the issue being resolved. In 37 cases out of 193 (19 per cent) the assessors went back to the applicant to clarify a discrepancy between the figures noted in the Accountant Declaration and the application form. However, this was not done for all applications where there were inconsistencies and there was no threshold established to determine whether a discrepancy was significant or not and so required follow up.

2.15 The risks that can arise when an eligibility criterion focussed on funding being available for a project to be able to proceed is not applied was illustrated by one applicant that proceeded through to the merit assessment stage despite not having provided a compliant Accountant Declaration. The assessment identified a total shortfall of $1.45 million (23 per cent of total project costs) between the actual funds required to deliver the project and those specified in the declaration. This application was approved for funding but the applicant later declined the grant offer when it was unable to secure the funding required from non-RJIP sources.

Were requests for co-funding exemptions appropriately considered?

Co-funding exemptions were not appropriately considered. Infrastructure did not assess each exemption request against the program guidelines[7], nor did it provide a recommendation on each request to the Panel that was consistent with any assessment that was undertaken. Four of the 16 applications where the applicant had made a co-funding exemption request (two per cent of all applications received) were awarded a total of $1.74 million in grant funding.

2.16 The importance of the grant funding leveraging funding from other sources was emphasised in the establishment of the program (see paragraph 1.2). Consistent with this, the program guidelines stated that grant funding will be up to 50 per cent of eligible project costs and that applicants were required to provide co-funding towards their project, to demonstrate their commitment to the project. The contribution could come from the applicant, local and state governments or the private sector.

2.17 The guidelines set out that applicants from the non-business streams could apply for a co-funding exemption if they could demonstrate ‘exceptional circumstances’. The program guidelines provided some examples of exceptional circumstances:

- drought and/or disaster declaration;
- limited financial capacity of the applicant;
- impact of industry decline; and
- significant recent change in population or community demographics.

2.18 Approval of exemptions was the prerogative of the Ministerial Panel, with the guidelines stating that the Panel:

> …will only grant exemptions in rare circumstances. The Ministerial Panel will grant an exemption if you have met the requirements under this section and presented a very strong case. If an exemption is not granted your application will be ineligible.

7 The program guidelines stated that applicants would need to present ‘a very strong case’ to have their exemption request granted.

2.19 Sixteen applicants applied for a co-funding exemption. Four applied under drought and/or disaster declaration, one applied under all four categories, six applied under limited financial capacity of the applicant, and the remaining did not identify the basis on which they were seeking an exemption. Co-funding exemption requests were received from applications in all regions except Goulburn Valley. A single request was received in relation to five regions and two requests were received for projects in the Bowen Basin, North Coast NSW and Wide Bay Burnett regions. Five requests were received from projects located in the Tropical North Queensland region.

2.20 The documented assessment procedures and training materials outlined that co-funding exemptions were to be provided to the Ministerial Panel for decision prior to each affected application being subject to a merit assessment. For example, the procedures stated that:

- A list of applicants seeking co-funding exemptions will be supplied by AusIndustry and your Team Leader will highlight which applications will need to be completed first.
- If a co-funding request is not approved, the application is not eligible and will not proceed to merit assessment. Hence, while the co-funding request must be promptly processed to allow decision by the Ministerial Panel, merit assessment of these applications may be held back to be the last to be completed.

2.21 Industry advised the ANAO that it did not receive any advice from Infrastructure regarding co-funding exemptions although Infrastructure records showed that it informed Industry of the approval of Cohort 1 exemption requests four weeks after the approval had been given.[8] Industry further advised the ANAO that it 'assumed that all co-funding requests had been approved'. Instead of the planned approach, applications that were the subject of a co-funding exemption request were assessed by Industry against the merit criteria before a decision was taken on whether the exemption request would be approved.

2.22 Inconsistent processes were adopted by Infrastructure in advising the Panel on co-funding exemption requests.

2.23 For Cohort 1 (Geelong, North Coast NSW, South Coast NSW, Bowen Basin, Tropical North Queensland and Wide Bay Burnett), on 22 September 2017 Infrastructure provided the Minister with a written briefing recommending that 12 co-funding exemption requests be approved[9], in consultation with the Panel. Infrastructure did not provide the Minister with information on the case that had been made by each applicant in support of its request. Infrastructure also did not advise the Minister whether the department had assessed that the applicant had 'presented a very

8 Infrastructure further advised the ANAO in August 2019 that 'No evidence regarding decisions about co-funding exemption decisions readings Cohort Two or Three have been found as yet. However, Infrastructure believes the advice would have been communicated, at least verbally and Industry would have been advised of the funding approval decisions when the final approved projects lists were sent to them.'

9 Cohort 1 had 13 requests for co-funding exemption, one application was excluded as it was assessed as ineligible.

strong case'.[10] The applications had already been merit assessed by Industry. The Minister recorded the approval of the co-funding exemption requests on 13 October 2017.[11]

2.24 A written briefing for the two Cohort 2 co-funding exemption requests (Upper Spencer Gulf, Goulburn Valley and Regional Tasmania) was provided by Infrastructure on 17 November 2017. The department advised the Minister 'that both applicants have supplied limited evidence to support their case'. At odds with this assessment, the department recommended that both exemption requests be approved. The applications had already been merit assessed by Industry. The Minister recorded the approval of both exemption requests on 30 November 2017.[12]

2.25 For Cohort 3 (Latrobe Valley), approval of the one co-funding exemption request was sought by Infrastructure in February 2018 through a written briefing. The department did not provide any assessment advice to the Panel on the case made by the applicant in support of its request, although the department recommended that the request be approved. This briefing was not signed by the Minister on behalf of the Panel with Infrastructure advising the ANAO in July 2019 that it was 'superseded' by a funding recommendations briefing submitted in April 2018. That later briefing did not ask that the Panel approve the co-funding exemption request, and so there is no record that the exemption request was approved. The applicant that sought a co-funding exemption was approved for funding.

2.26 Overall, Infrastructure recommended that the Panel approve for funding six of the 15 eligible applications that were seeking a co-funding exemption. The Panel approved two of those six projects but did not approve the other four recommended applications. The Panel also approved for funding two other applications that were seeking an exemption but which the department had not recommended be approved for funding. In total, the four approved applications that had sought a co-funding exemption were granted $1.74 million in RJIP funding.[13]

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10 As indicated at paragraph 2.18, this was the criterion for approving exemption requests set out in the program guidelines.

11 Two of the applications that were the subject of a co-funding exemption request were later approved for funding (both located in Tropical North Queensland).

12 One of applications that was the subject of a co-funding exemption request was later approved for funding (located in Regional Tasmania).

13 One was located in each of the Latrobe Valley and Regional Tasmania regions, and two were located in the Tropical North Queensland region.

Recommendation no.1

2.27 The Department of Infrastructure, Transport, Cities and Regional Development transparently assess and provide clear advice to decision-makers on whether any exemption requests permitted under grant program guidelines should be granted, and why.

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

2.28 *Following the assurance review in 2018, the Department has implemented clearer and more robust procedures for assessing and briefing on co-funding exemption requests and applied this to regional program funding rounds.*

Were the merit criteria applied to inform an assessment of the value for money of each candidate project?

The published merit criteria were applied to inform an assessment of the value for money of each candidate project. The scoring and weighting for the criteria was transparent and enabled the merit assessed applications to be ranked against the published criteria.

2.29 The merit criteria used to inform an assessment of the value for money of each candidate project were the same as those included in the program guidelines. The merit criteria were weighted, with the weightings clearly outlined to applicants in the program guidelines.

2.30 As illustrated by Table 2.2, the assessment approach involved a maximum score and a minimum threshold. Scoring below the minimum threshold resulted in the application being assessed as not value for money and not supportable for funding. The maximum possible total score was 100.

Table 2.2: Merit criteria

Merit Criteria 1	Merit Criteria 2	Merit Criteria 3	Merit Criteria 4
The extent to which your project addresses the Local Investment Plan's investment sectors and strategic priorities	The level of net economic benefit your project will deliver to the region during and beyond the project period	The value for money offered by your project	Your capacity, capability and resources to carry out the project
Maximum 20 points (20% of overall score)	Maximum 30 points (30% of overall score)	Maximum 30 points (30% of overall score)	Maximum 20 points (20% of overall score)
Minimum passing score 10	Minimum passing score 15	Minimum passing score 15	Minimum passing score 10

Source: ANAO analysis of departmental records.

2.31 Industry assessed 623 applications against the four merit criteria. There were 617 applications (99 per cent) that met the minimum threshold score for the first criterion, 589 (95 per cent) for the second criterion, 615 (99 per cent) for the third criterion and 596 (96 per cent) for the fourth criterion. In total, 571 applications (92 per cent) met the minimum passing score for each of the four merit criteria.

2.32 The individual scores for each of the four criteria were added to derive an overall score out of 100 for each application. This overall score was used to rank competing eligible applications in each RJIP region.

Were there appropriate checks and quality controls over the eligibility and merit assessment processes?

Appropriate checks and controls were not in place for eligibility and merit assessments. The records of eligibility checking were not complete for each application and there were also internal inconsistencies for some applications. There were shortcomings in the assessments undertaken against the second merit criterion. This criterion was directly relevant to the program achieving its intended economic outcomes, including in relation to job creation. An assurance review contracted by Infrastructure identified that applicant claims were being taken at face value without appropriate scrutiny. In relation to this criterion and two of the three other criteria, the Panel recorded that more than 20 per cent of applications had been incorrectly scored by the assessors.

2.33 As described at paragraph 1.6, application assessment was outsourced with Industry's contractor obtained from a deed of standing offer the department had established in 2015 for contact centre services.[14] The panel procurement process had not been to select a contractor to provide grant application assessors and so the deed did not include rates for this type of work. A quote was not sought by Industry from any other potential provider. Industry did not employ competition in the selection process for engaging this firm to undertake RJIP assessment work or benchmark the rates being paid for assessment work to demonstrate value for money was being achieved in respect to the contract value of $3.15 million.

2.34 In August 2019, Infrastructure advised the ANAO that in total it is scheduled to pay $8.078 million to Industry for the delivery of RJIP (see paragraph 1.5), which includes the cost of outsourcing the assessment work and the department estimated that its own costs were $700,000.[15] This represented $12,504 for each application submitted[16], and 4.0 per cent of total funding approved.

2.35 Table 3.2 on page 30 of Auditor-General Report No.30 of 2016–17 *Design and Implementation of Round Two of the National Stronger Regions Fund* outlines the costs of administering the two most recent competitive regional grant funding rounds of programs audited by the ANAO. As illustrated by Figure 2.1, the costs of administering a regional grant funding round

14 The request for tender had sought a contractor to 'supply and provide a fully managed Contact Centre to meet the department's requirements for handling customer queries via telephone, email, web chat, emerging technologies and related fulfilment'. The request for tender also sought rates for 'back office processing' related to provision of a contact centre (the evaluation of the back office component of the contact centre tenders was weighted at three per cent of the total evaluation score for each respondent).

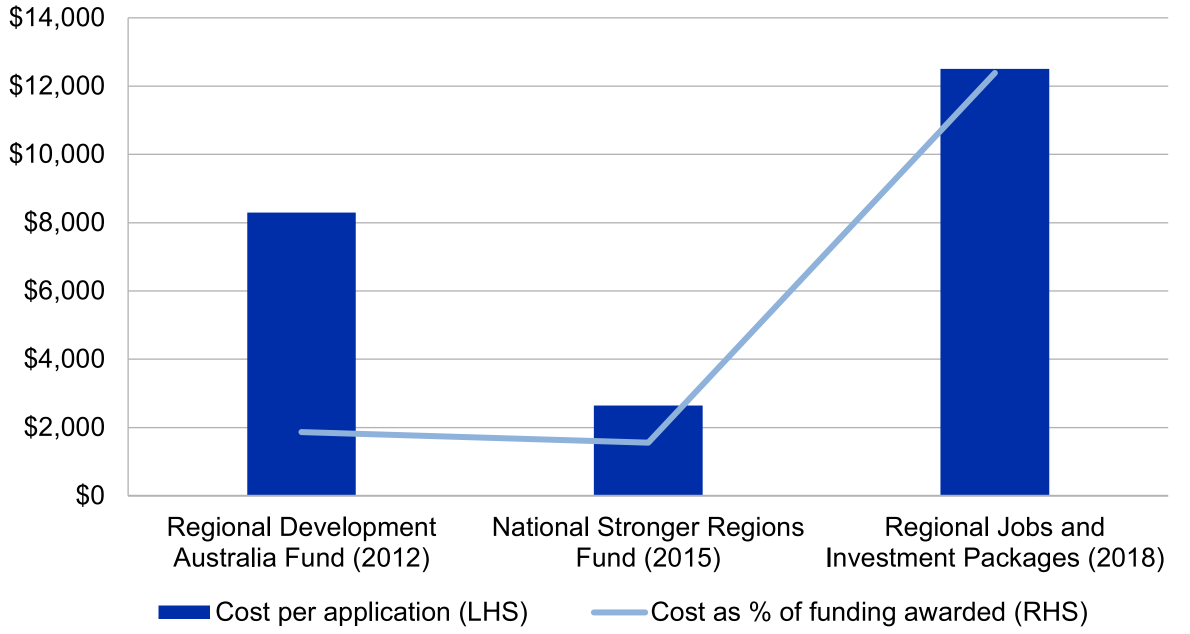
15 This figure excludes policy design costs, which the department estimated at $670,000. Infrastructure advised the ANAO in August 2019 that, to date, it has paid invoices totalling $5.213 million to Industry for the delivery of RJIP.

16 The fees set out in the Memorandum of Understanding were based on receiving 1500 applications. This equated to $5,385 per application.

reduced significantly between 2012 and 2015 but the costs of RJIP were higher than both earlier regional grant funding rounds audited by the ANAO. In August 2019, Infrastructure advised the ANAO that it has:

> …concerns with the comparisons of delivery cost being made between programs being potentially misleading. While the ANAO has shown the costs on a cost per application basis and as a proportion of funding awarded, these were different programs in how they were designed and delivered. For example, RDAF and NSRF were assessed each as one round, whereas RJIP was conducted as 10 rounds, bundled up into three briefing cohorts. That means the fixed cost was greater than a single round and staff needed to be employed over a longer period to do assessments. This inevitably creates an inefficiency not in those previous programs.[17]

Figure 2.1: Comparison of the assessment costs of recent regional grant funding rounds



Source: ANAO analysis of departmental records and Auditor-General Report No.30 of 2016–17.

2.36 Within the contract value of $3.15 million, $312,162 (10 per cent) was committed specifically for training team leaders and assessors. Industry advised the ANAO in July 2019 that two days of training was provided by the Grants Hub to seven staff working for the contractor who then trained the other assessors, and that assessors were provided seven days of training. Industry records of training completion were poor, making it difficult to identify how many of the 64 individuals recorded as having conducted eligibility and/or merit assessments had received the training.

2.37 For example, on 17 July 2019 Industry provided the ANAO with a list of individuals that it advised attended the training. This list did not include an individual identified to have performed a

17 The ANAO recognises that there were differences between the programs, including some aspects of the design and administration of the predecessor programs that added to costs to their administration in comparison to RJIP. It is also worth recognising that benchmarking does not need to involve identical comparators to be of value as an indicator of program administration efficiency, and trends over time.

'quality specialist' role undertaking 96 reviews of eligibility assessments and 132 reviews of merit assessments. Further information provided by Industry in August 2019 indicated this individual had been invited to attend a 1.5 hour briefing in early August 2017 on the quality specialist role but there was no evidence of any attendance at the assessment training that was to have been conducted in July 2017 (assessments were underway by August 2017). The Ministerial Panel records stated that 29 of these merit assessments by this assessor had incorrectly scored the application (the most recorded scoring errors of any assessor, representing 22 per cent of all merit assessments this assessor was involved with).

2.38 In response to an ANAO question about how it assured itself about the quality and effectiveness of the training provided to assessors, in July 2019 Industry advised the ANAO that:

> There was no formal process in place to obtain feedback from the training participants following the completion of the initial training and at the completion of the assessments. Participant development was ongoing and delivered in a continuous learning atmosphere throughout the assessment period.

2.39 Obtaining structured feedback from training participants would have been a more robust approach.

2.40 Assessment procedures were documented. The procedures stepped assessors through how to use the electronic assessment system used by Industry. The procedure was for assessors to review applications assigned to them, assess eligibility against each requirement set out in the program guidelines and record an assessment against each merit criterion along with a score against each criterion and an overall recommendation.

2.41 For both eligibility and merit assessments:

- an assessor undertook and recorded the assessment; and
- an assessment team leader guided and reviewed this work.

2.42 Based on the assessment records:

- the average number of eligibility assessments conducted by first assessors was 12, with the maximum number undertaken by an assessor being 32 and the average undertaken by second assessors was 35, with the maximum number undertaken by an assessor being 114;
- the average number of merit assessments undertaken by first assessors was 13, with the maximum number undertaken by an assessor being 47 and the average undertaken by second assessors was 48, with the maximum number undertaken by an assessor being 132;
- it was common for eligibility assessors and reviewers to not continue with the assessment of the same application through to merit assessment and review. As a result, a new assessor and reviewer were required, at merit assessment stage, to spend time familiarising themselves with the application and also with any issues that the eligibility assessment had deferred to be addressed at the merit assessment stage; and
- typically, individuals performed either the first assessor or second assessor role, although some individuals undertook both (but not for the same application). Specifically:

- the first eligibility assessment was undertaken by 51 individuals, with 18 individuals conducting second assessments (four of these had also undertaken some first assessments); and
- the first merit assessment was undertaken by 48 individuals of which 47 had also been involved with the conduct of eligibility assessments. There were 10 individuals who only conducted second assessments whereas three conducted both first and second assessments (but not of the same application).

2.43 The electronic eligibility assessment forms were well designed. They included tick boxes for all questions, with a free text box at the end of the assessment sheet titled 'Issues to note or ineligibility explanation'.

2.44 Of the 634 applications assessed against the eligibility requirements, there were 77 forms (12 per cent) where a response was not recorded against a required box in the assessment form, or an inconsistent response was recorded (for example both 'Yes' and 'No' ticked in response). Each of these applications nevertheless proceeded to merit assessment without the issues evident in the records of eligibility assessment being addressed by the review process that was meant to have been in place.

2.45 The documented assessment procedures required the assessors to score applicants against the four merit criteria using a spreadsheet-based scoring system. This template provided the assessor with a drop down list of options with selected option assigning a score for each category and also automatically providing a total score at the bottom. This eliminated manual calculations of total scores but it required the assessors to manually copy the generated scores to the merit assessment forms. The assessment procedures explicitly reminded the assessors to 'Check your Scoring template and Merit assessment and ensure that the scores are consistent across both documents'. Yet for 30 applications the scores in the merit assessment form differed to those in the scoring templates. In August 2019, Industry advised the ANAO that:

> The scoring template was used to assist with calculation of scores for the initial draft of the assessment. Where feedback from the quality specialists identified a revision was needed to a particular score, minor adjustments could be calculated without the assistance of the scoring template and was therefore made in the final assessment document only. The scoring templates were working documents and not part of the assessment pack.

2.46 Industry records of the assessment process indicate that merit assessments were completed, on average, 21 calendar days after the eligibility assessment was completed.[18] There was significant variability in the average time taken by assessors to complete merit assessments. In August 2019, Industry advised the ANAO that significant variability was to be expected due to the differences in size and complexity of the applications. The ANAO's analysis of the assessment records do not evidence that applications seeking more funds took longer.

18 As Industry did not collect data on when assessments commenced (and in the absence of additional reliable information), the time between the second review of eligibility assessment being recorded as completed and the first merit assessment being recorded as completed was used as an indicator of the time taken to complete merit assessments. The ANAO's analysis has excluded applications with an obvious typographical error in the recorded date the assessments were completed (such as 1917), as well as those where no date was recorded.

2.47 There were 35 applications where the first merit assessment was recorded as having been completed on the same day as the eligibility assessment was recorded as having been completed, including eight applications where both merit assessments were recorded as being completed on the same day the eligibility assessment was completed. One quarter of assessed applications were recorded as having the merit assessment completed within seven days of the eligibility assessment being recorded as completed. There were also 35 instances where the first merit assessment was recorded as having been completed before the eligibility assessment was recorded as complete and four instances where both merit assessments were recorded as completed before the eligibility assessment was finalised — an approach at odds with the documented procedures and training.

2.48 The 'Merit criteria guidance' appendix included in the documented assessment procedures provided 'general points you should be conscious of' (such as that application statements without validation should not be taken as fact), repeated the guidance from the application form as to how applicants can demonstrate their claims against each criterion, and also set out 'the types of things you will be looking for' when conducting assessments.

2.49 The procedures alone did not provide a strong basis for contracted staff to conduct merit assessments. For example, the program guidelines outlined that the intended outcomes of the program are to drive economic growth and create jobs. The second merit criterion (the equal highest weighted criterion) related to each project's economic benefits, including job creation. The assessment procedures did not include any guidance specific to assessing an application's job creation claims. This was also not specifically addressed in the training materials.[19] In this respect, Infrastructure's contracted assurance review (see paragraph 1.7) found that 'The assessment of economic benefits by the Grants Hub, particularly ongoing jobs created by each proposed grant, appeared to have been taken at face value.' The assurance review recommended that the department:

> …in future, more robustly test applicants' economic benefit claims, particularly as some of the associated employment claims for grants that were awarded are clearly substitutive, rather than additive, for employment in the Region concerned. We recommend that any future RJIP rounds give careful attention to how applicants are guided on the employment outcomes claimed from the proposed activity. The department may also need to consider how it gives assurances to a Panel on the veracity of the employment claims made by applicants.[20]

2.50 Similarly, the ANAO's analysis of the assessment records do not evidence that job claims were scrutinised in relation to relevant factors such as the credibility of the employment outcomes

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19 In relation to an applicant's job creation claims, the training materials included (for the Business Innovation Stream) the following that a project should address: "Expected number and types of sustainable local jobs created". Similar single sentence descriptions were included in the training materials for the other two streams.

20 These issues are similar to those raised by the ANAO when auditing an earlier grants program established with a focus on generating employment outcomes (the Jobs Fund). See Auditor-General Report No. 7 of 2011–12 *Establishment, Implementation and Administration of the Infrastructure Employment Projects Stream of the Jobs Fund*, Auditor-General Report No.27 of 2011–12 *Establishment, Implementation and Administration of the Bike Paths Component of the Local Jobs Stream of the Jobs Fund*, Auditor-General Report No.11 of 2012–13 *Establishment, Implementation and Administration of the Quarantined Heritage Component of the Local Jobs Stream of the Jobs Fund* and Auditor-General Report No.43 of 2012–13 *Establishment, Implementation and Administration of General Component of the Local Jobs Stream of the Jobs Fund*.

being claimed, the type of jobs (full-time versus part-time, short-term versus permanent), or whether the job claims represented value for money given the amount of grant funding being sought. In August 2019, Industry advised the ANAO that:

> Subsequent to the RJIP round, Industry has been in discussions with Infrastructure in relation to testing the veracity of applicant claims for employment outcomes and how we can apply learnings in other relevant programs.

2.51 In August 2019, Infrastructure advised the ANAO that, for future programs, it has addressed the issue of determining employment outcomes from regional projects through commissioning and implementing a report from the Centre for International Economics (CIE). The CIE report was commissioned following a workshop on economic benefit claims in July 2018. The report identified:

- issues with the current approach to measuring job claims, including key terms not properly defined;
- issues with the assessment of net jobs created in the region versus gross jobs created;
- issues with assessments of jobs created through feasibility study projects;
- assessors were unsystematic in their assessment of trade-offs implicit in economic evaluation of projects; and
- employment related questions asked of grant applicants were in need of improvement.

2.52 As outlined at paragraphs 3.15 to 3.16, a feature of the award of funding under this program was the frequency with which decision-makers did not approve recommended projects and, instead, approved projects that had not been recommended for funding. There were no applications where the Panel recorded that it considered the application had been incorrectly scored against the first merit criterion. In relation to the remaining criteria, the Panel recorded that:

- 100 applications (16 per cent of total applications assessed against the merit criteria) had been incorrectly scored against the second criterion[21], equally divided between overstated scores (49 applications) and understated scores (51 applications). Potentially reflecting the issue identified by Infrastructure's assurance review (that the employment claims were being taken at face value), the Panel records indicated that it disagreed with the analysis of employment benefits for 49 of these 100 applications;
- 53 applications (nine per cent) had been incorrectly scored against the third criterion. Most commonly (39 applications, 74 per cent) the Panel considered scoring had overstated the extent to which an application met this criterion; and
- 57 applications (nine per cent) had been incorrectly scored against the fourth criterion. In almost all instances (55, or 96 per cent) the Panel considered the scoring had understated the extent to which the application met the criterion.

2.53 There were 51 instances where the Panel considered the application had been incorrectly scored against a single criterion. For 70 applications the Panel considered the application had been incorrectly scored against two criteria, and there were six instances where the Panel considered the

21 As outlined in Table 2.2, the second criterion related to the level of net economic benefit a project will deliver to the region during and beyond the project period.

application had been incorrectly scored against three criteria. Overall, there was a different funding outcome from that recommended for all but one of the 127 applications where the Panel recorded one or more of the merit criteria as being incorrectly assessed.[22]

2.54 The frequency with which the Panel recorded that it considered applications had been under- or over-scored against the criteria did not result in Infrastructure engaging with Industry on whether changes needed to be made to assessment procedures for the next cohort of applications under assessment.[23] The assurance review of the program contracted by Infrastructure (see paragraph 1.7) recommended that:

> The department should consider how it can quickly gain assurance confidence from the Hub in the assessment process and its outputs, for any future RJIP rounds. This could be done either by the department independently assessing a sample of early projects to confirm that the Hub was assessing accurately, or by reviewing a sample of projects prior to the Panel step for assurance purposes.

2.55 Industry advised the ANAO in July 2019 that it had not been asked to re-examine any of its assessment procedures/approach for criteria two, three and/or four in light of the Panel frequently recording that it disagreed with the merit assessments for those criteria. There were also no steps taken to examine whether the incorrect scoring (according to the Panel) related to the work of some assessors or was a systemic issue with the assessment process (ANAO analysis did not indicate that there were particular assessors who predominated in terms of those applications the Panel considered had been incorrectly scored).

2.56 Different conclusions can legitimately be drawn from the same set of information. Where decision-makers form a contrary view to the departmental assessment based entirely on the inquiries and information contained in the agency assessment (as was the case with RJIP as the Panel was provided with assessment snapshots but not the actual applications), departments should require, in consultation with any contracted provider, that assessment practices and procedures be reviewed to identify whether there are any shortcomings in their approach to undertaking merit assessments in accordance with the program guidelines.

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22 For one application, the Panel recorded criteria two and three as having been overstated but did not overturn the recommendation as the application was already not recommended for funding by the department.

23 Infrastructure did not identify to Industry those instances where the Panel had concluded that the merit assessment had under- or over-scored an application against one or more criteria.

Recommendation no.2

2.57 In circumstances where there is a high incidence of grant decision-makers indicating disagreement with the assessment and scoring of applications against published criteria, the Department of Infrastructure, Transport, Cities and Regional Development require, in consultation with any service provider, that assessment practices and procedures be reviewed to identify whether there are any shortcomings and, if appropriate, make adjustments.

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

2.58 *Following the assurance review in 2018, the Department has implemented a quality assurance check on a sample of assessments during the process to ensure the assessments are complying with agreed procedures. In consultation with the AusIndustry Business Grants Hub, the Department undertakes a review of assessment procedures at the completion of each round to ensure improvements are implemented in future rounds.*

Were conflicts of interest appropriately managed?

Conflict of interest management was not to a consistently appropriate standard as described in the Commonwealth Grants Rules and Guidelines:

- Infrastructure developed a framework that required Local Planning Committee members to declare perceived and actual conflicts of interests but there were various shortcomings in the implementation of this framework that resulted in errors and missing declarations. Advice on how to appropriately manage the declared conflicts was not provided by Infrastructure to Committee members that declared a conflict;
- the program guidelines foreshadowed that grant applicants would be required to declare whether they had any conflicts but the application form did not follow through and require applicants to actually do this;
- Commonwealth staff working on the program were covered through departmental policies. Infrastructure's policy on declarations was limited to SES staff and non-SES staff working on RJIP were not required to make any declarations; and
- there were no conflicts declared by any of the contractors who played a key role in the assessment of applications. Contractors were not required to sign a written declaration that they had no conflicts with reliance instead placed on the absence of any declared conflicts as sufficient evidence that no conflicts existed.

2.59 The CGRGs state that appropriate mechanisms should be put in place for identifying and managing potential conflicts of interest for grant opportunities. The CGRGs identify that these mechanisms may include:

- establishing procedures for officials, potential grantees, and grantees to declare their interests;
- developing procedures to manage potential conflicts of interest in all phases of grants administration;

- maintaining a register of staff and other party interests; and
- ensuring that grant opportunity guidelines clearly outline what constitutes a conflict of interest.

2.60 For RJIP, conflicts of interest arrangements were therefore required in relation to applicants, Local Planning Committees, Infrastructure, Industry's Business Grants Hub and its contractor. The need for applicants and those involved in the delivery of the grant program to address conflicts of interest was identified in the program guidelines. In addition, the Local Planning Committee members were required to identify and declare conflicts of interest under the Local Planning Committee Terms of Reference.

Grant applicants

2.61 The program guidelines stated that the applicants would be required to declare perceived or existing conflicts of interest, or declare that they had no conflicts.

2.62 No action was taken to give effect to this element of the program guidelines. Specifically, the RJIP application form did not require applicants to declare whether or not they had any conflicts. As applicants were not asked to make the declaration that the guidelines had foreshadowed, they were not provided with any advice on conflict management.

2.63 Infrastructure advised the ANAO in May 2019 that it had liaised with the Grants Hub to ensure that the application form for new programs will require applicants to disclose any conflicts.

Local Planning Committees

2.64 The program guidelines identified that each Local Planning Committee was to develop a Local Investment Plan and that the first merit criterion related to the extent to which a candidate project addressed the Plan's investment sectors and strategic priorities. The guidelines did not identify that the Committees were to have any involvement in the assessment or decision-making processes although, for nine of the regions[24], Infrastructure's funding recommendations briefing to the Ministerial Panel suggested that the Panel may wish to consult with the Chair of the relevant Committee in the event the Panel wished to award funding to an application the department had not recommended be approved. Infrastructure records state that, in May 2018 after questions had been raised at Senate Estimates, the Minister's Office had advised the department that no consultations took place.

2.65 The Local Planning Committee Terms of Reference define conflicts of interest for a Committee member and require that Committee members:

- provide the department with a signed Declaration of Personal Interest as well as a signed Confidentiality Agreement, prior to their appointment; and
- disclose any interests of immediate family members and close associates.

2.66 The department sent a document pack to the nominated Committee members to complete. The documents were sent by hardcopy and email (in one case the department confirmed to the ANAO that the wrong documents were sent due to 'departmental error'). The documents sent to

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24 The exception was Geelong, which was the first region for which Infrastructure provided a briefing.

Committee members were specific to the region for which they had been nominated. While the emails contained the correct documents, in many cases the hardcopy versions referred to the incorrect region.

2.67 Concerns about whether a conflict of interest involving the Chair of one Committee had been identified and managed were referenced by one Member of Parliament when requesting an ANAO audit of RJIP (see paragraph 1.13).[25] As illustrated by Table 2.3 there was a high level of compliance by the 87 Committee members with the requirement that they declare their interests and sign a confidentiality agreement. However:

- it was common for forms to not be signed, dated or to have other fields not completed, with 84 per cent of personal interest declarations exhibiting one or more of these characteristics. For example, as part of their 'Declaration of Personal Interest' Committee members were required to agree to a question stating that they will promptly update their disclosures but 76 per cent did not provide a response to this;
- Committee members from Bowen Basin, Geelong, North Coast NSW and the Upper Spencer Gulf regions signed documents meant for Tropical North Queensland; and
- it was common for declarations of consent not to be provided by immediate family members. Infrastructure did not have procedures in place to follow up instances when forms were not completed or not returned to establish whether this was an oversight that required rectification. Of those 27 that were completed[26], 19 per cent referred to the wrong region.

Table 2.3: Committee member compliance with conflict of interest requirements

Document	Not returned	Incomplete	Referred to the wrong region
Declaration of Personal Interests	1	73	11
Confidentiality Agreement	1	7	9
Declaration of consent by immediate family member	33	4	9

Source: ANAO analysis of departmental records.

2.68 Infrastructure did not provide Committee members with advice on how to manage those conflicts that were declared (24 family and 30 personal interest declarations were made).

2.69 The assurance review of the program contracted by Infrastructure (see paragraph 1.7) suggested that in future the Committee members' terms be concluded after the Region Report has

25 A company, whose director was the spouse of the Committee Chair, was approved for funding and another director of the same company was a business partner of the Chair. The applicant had not declared the conflict at the application stage. The Chair had returned a blank declaration of consent by family members. The conflict was not declared once the Committee was operational even though the Local Planning Committee Terms of Reference require that 'The declaration of conflicts of interest must be a standing agenda item for all Committee meetings'.

26 Completed included forms where the applicant has written n/a indicating clearly that the form does not apply to them.

been accepted and that Committee members should have no role in the grant assessment and recommendation process.[27] It recommended that the department 'tighten' the conflict of interest requirements in any future rounds, and also ensure that an appropriate 'air gap' exists between members of the Local Planning Committee and the consideration of grant applications, specifically by ruling out in the program guidelines any contact between the Ministerial Panel and the Committee Chair.

Contracted assessors

2.70 As noted at paragraph 1.6, Industry outsourced the assessment of applications. Of the 64 individuals that were involved in undertaking or reviewing assessments, 56 (88 per cent) were supplied by the contractor with the remainder Industry staff. Collectively the contracted assessors did 79 per cent of the eligibility assessment work and 82 per cent of the merit assessment work.

2.71 All initial assessments for both eligibility and merit assessment work were done by the contracted assessors. The majority of second reviews of the initial assessment work was also conducted by team leaders who were contracted assessors.[28] Contracted team leaders reviewed the work of other contracted assessors for 57 per cent of the eligibility assessments and 64 per cent of the merit assessments.

2.72 Industry advised the ANAO in June 2019 that the contracted assessors were provided with training that included a component on managing and declaring conflicts of interest. Further, the documented assessment procedures stated that assessors must declare any conflicts in relation to each individual project and required that, if a conflict exists, the assessor must be excluded from the assessment.

2.73 Industry advised the ANAO in July 2019 that contracted assessors were aware of the need to make declarations in relation to any conflict of interest issues and that, in some cases, assessors sought verbal clarification from their team leaders or Industry supervisors in relation to declarations but it was determined that no declarations needed to be made. Contracted assessors were not required to sign a written declaration that they had no conflicts.

Departmental staff

2.74 Infrastructure and Industry staff are members of the Australian Public Service and the framework of ethical conduct established by the *Public Service Act 1999* and the Code of Conduct applies to them. On a risk management basis, additional declarations specific to a program represent a better practice approach to managing conflicts of interest.

Infrastructure

2.75 Infrastructure is responsible for the overall administration of the program. It engaged Industry to administer key aspects of the program including the assessment of applications (see paragraph 1.5). Specifically, Infrastructure formulates policy, provides ministerial advice for the program, makes program announcements and provides advice to support decision-making such as departmental advice to the Ministerial Panel on eligible applications and providing

27 Region Report was the term used for the Local Investment Plan for that region.

28 The contracted assessors and the contracted team leaders were provided to Industry by the same company.

recommendations on which projects to fund. This work required clearances by the Senior Executive Service (SES) staff and also involved non-SES staff.

2.76 Infrastructure requires SES staff to submit an annual declaration and provided the ANAO with evidence showing all SES involved with RJIP had signed a declaration. The SES declarations included a general statement advising the types of interests and relationships that can give rise to conflicts of interest. For example, partnerships, trusts, investments, sources of income, gifts, voluntary activities and social or personal relationships. The form required the declarant to specifically advise about directorships, pecuniary and other interests or relationships of the declarant or their immediate family members. The form also required the declarant to commit to updating the declaration if they were assigned a task that could give rise to a conflict or perception of a conflict.

2.77 Infrastructure also ran a process to identify non-SES staff whose positions would require a declaration and on 20 March 2017 asked them to submit a declaration. No non-SES staff, in RJIP roles, were identified through this process as requiring a declaration. In July 2019, Infrastructure advised the ANAO that, from 2019, there is a mandatory requirement for all Executive Level 2 staff across the department to submit an annual declaration of personal interests.[29] Further advice from the department in August 2019 was that the Regional Programs Branch instituted a requirement for declarations from all staff and contractors in mid-2018.

2.78 More generally, Infrastructure conducts training on declaring and managing conflicts of interest and the Secretary sends out an annual reminder to all staff to declare conflicts.

Industry

2.79 Industry provided input on a number of aspects of the RJIP as per the Memorandum of Understanding and the RJIP Services Schedule signed with Infrastructure. A key aspect of Industry's role was to manage grant assessments which included overseeing the assessment work outsourced to an external contractor. This provided Industry employees with access to all the applications and associated data through the grants management system. Industry had eight employees directly involved with the RJIP assessments and other management and SES staff for oversight of Industry's grants administration activities.

2.80 Industry employees were not required to make conflict of interest or potential conflict of interest declarations specific to RJIP, reliance being placed on the overarching department wide policy on conflict of interest and insider trading. The policy requires continuous disclosure — all employees are required to provide annual declarations and declare matters throughout the year as required. In August 2019, Industry advised the ANAO that the employees working directly on RJIP grant assessments were reminded of the need to declare conflicts of interest because the assessment procedures contained instructions that assessors cannot be involved in an assessment if they have a conflict of interest. The RJIP assessment procedures also instructed the assessors to identify any potential conflict of interest during any stage of the assessment. No assessors declared any RJIP specific conflicts of interest.

29 Executive Level 2 staff are non-SES staff.

3. Funding decisions

Areas examined

This chapter examines whether decisions taken on the award of grant funding were supported by clear advice and consistent with the requirements of the grants administration framework.

Conclusion

Decisions taken on the award of grant funding were supported by clear advice and consistent with the requirements of the grants administration framework. The Department of Infrastructure, Transport, Cities and Regional Development provided the Ministerial Panel with comprehensive written briefings to inform the award of grant funding in each of the 10 regions. The briefings included clear funding recommendations that were based on the results of the assessment of applications undertaken. The briefing approach promoted accountability by identifying to decision-makers the requirement for them to record the reasons for awarding funding to applications that had not been recommended. The approach to the overturn decisions did not include re-scoring of applications that the Panel identified as having been incorrectly scored, and the grants administration framework does not require that decisions to approve not recommended projects be reported annually to the Finance Minister (only those that are specifically recommended for rejection).

Areas for improvement

The ANAO made one recommendation aimed at Infrastructure embedding better practice observed in a predecessor grant program about re-scoring of applications where decision-makers conclude the assessment results are incorrect.

Was the Ministerial Panel advised in writing on the individual and relative merits of applications against the criteria?

Written advice was provided by Infrastructure to the Ministerial Panel on the individual and relative merits of competing applications that had been assessed as eligible. This included providing the Panel with the assessment score for each application against each criterion, the total score and where the application ranked relative to other competing applications.

3.1 Under the CGRGs, officials must provide written advice to Ministers where Ministers are exercising the role of an approver (as is the case for RJIP). Amongst other things, the advice to Ministers must:

- outline the application and selection process followed, including the selection criteria, that were used to select potential grantees;
- include the merits of the proposed grant or grants relative to the grant opportunity guidelines and the key principle of achieving value with relevant money; and
- identify which applications: fully meet the selection criteria; partially meet the criteria; or do not meet any of the criteria.

3.2 Each of the 10 funding recommendations briefings prepared by Infrastructure (see Table 1.1) met these requirements. In terms of the merits of the competing applications that had been assessed as eligible, the funding recommendations briefing for each region included:

- advice that that the assessment process required that an application must have scored 50 out of 100 to be assessed as value for money, in addition to scoring at least 50 per cent of the maximum score against each of the four weighted merit criteria;
- identified any applications assessed as ineligible and excluded them from being ranked;
- as an attachment a summary ranking spreadsheet that included key information[30] on eligible projects as well as the score against each criterion[31], the total score, its ranking relative to other eligible applications and the departmental recommendation (value for money and recommended for funding; value for money but not recommended for funding; not value for money); and
- individual assessment 'snapshots' for each eligible application, including identifying the assessed strengths and weaknesses of the application against each of the merit criteria, the score against each criterion and whether that score was above or below the benchmark for deciding whether the application represented value for money.

Was the Ministerial Panel given clear funding recommendations?

Clear funding recommendations were provided to the Panel by Infrastructure. The department identified the 232 applications it was recommending be awarded a total of $219.7 million in program funding.

3.3 For each of the 10 regions, Infrastructure's funding recommendations briefing included two recommendations, being that the Ministerial Panel:

- agree to fund the projects recommended for funding by the department; and
- note that the Panel must satisfy the requirements of the CGRGs by ensuring that, where the Panel did not agree with the department's funding recommendations, the reasons for those overturn decisions are properly documented.

3.4 Each covering briefing for the 10 RJIP regions identified how many applications were being recommended for funding and the total value of the recommended grants. An attachment to each briefing identified each of the individual grants that was recommended for funding, and those eligible applications not recommended along with the scores against each merit criterion and the

30 Namely the project title, proponent, project stream, project location, grant amount sought, eligible project cost, any other Commonwealth funding being provided and whether a co-funding exemption request had been made.

31 Scores that were less than the minimum required to be assessed as value for money were clearly identified.

total score for each application.[32] Each briefing also incorporated clear advice from the department that the:

- projects recommended for funding comprised the highest ranked applications assessed as representing value for money across all streams for the amount of funding available for the region;
- rationale for funding decisions in a competitive merit-based selection process should be tied to the program guidelines and key considerations of value for money against the criteria both in each application's own right and relative to competing applications; and
- applications assessed as ineligible or assessed as not value for money should be rejected.

3.5 Across the 10 regions, there were 232 applications that Infrastructure recommended be approved for a total of $219.7 million for funding (see Table 3.1). The department recommended that the remaining 402 applications not be approved for funding.

Table 3.1: Departmental funding recommendations: all regions

Department's advice	Number of applications (% of total)	Total funding requested
Recommended for funding	232 (37%)	$219,692,247
Not recommended for funding:		
• Assessed as passing each merit criterion, but lower ranked within the funding available for the relevant region	336 (53%)	$362,189,270
• Assessed as not meeting one or more of the merit criteria	54 (9%)	$34,165,230
• Assessed as ineligible	12 (2%)	$14,659,648
Total	**634**	**$630,706,395**

Source: ANAO analysis of departmental records.

3.6 Infrastructure's approach to making funding recommendations was in accordance with the CGRGs. The assurance review contracted by Infrastructure (see paragraph 1.7) had recommended, in light of the extent to which departmental funding recommendations were not accepted by the Panel (see further at paragraphs 3.11 to 3.17), that for any future RJIP funding rounds the department consider providing a rank ordering of projects (based on assessed scores) and advice about the available budget for each region, and allow the Panel to consider each proposal on its

32 Applications assessed as ineligible were not subject to merit assessment (except for one application which was merit assessed and eventually approved for funding as the Panel considered the Registered Training Organisation element of the proponent's business to be incidental to the project – see paragraph 2.7). They were separately identified to the Panel (either in the body of the briefing, or in a separate attachment to the briefing).

merits. The ANAO suggests that adopting this approach would reduce accountability and transparency in the award of grant funding.[33]

Were funding recommendations consistent with the outcome of the competitive assessment process, program guidelines and program funding limits?

> Infrastructure's funding recommendations for each region drew on the results of the competitive assessment process set out in the program guidelines as well as being consistent with the funding limits published for each region.

3.7 On 30 May 2019, Infrastructure advised the ANAO that:

> Regarding the department's ranking method, the applications were ranked based on the merit assessment score from the Hub and the amount of funding available to each region. When applications were ranked, applications with the same score were given the same ranking.

3.8 A consistent approach to which applications were ranked was not evident across the 10 regions:

- for seven regions, Infrastructure ranked all eligible applications according to the result of the merit assessment scoring;
- in respect to the Goulburn Valley and Latrobe Valley regions, Infrastructure ranked those applications that had been scored as meeting each of the merit criteria, but did not rank those applications that had been assessed as failing to meet the threshold of one or more of the criteria; and
- for the Bowen Basin region, only those applications that were recommended for funding were ranked. No other applications were ranked, including those that had scored higher than the recommended applications but that were unable to be accommodated within the funding available for the region.

3.9 Applications awarded the same total assessment score in each region were, in most instances, given the same ranking number. The department then worked down the ranked list in each region recommending funding those applications where the grant amount requested could be accommodated within the published funding cap for the region. Where the requested grant amount could not be accommodated within the funding cap, the department would 'skip' over that (and any other applications whose requested grant amount could also not be accommodated) to recommend the next highest ranked application(s) that could be afforded within the funding cap.[34] This continued until there were no more applications that could be supported within the cap.

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33 Infrastructure's response to this recommendation of its assurance review was that it had adopted this 'pooling' approach in a more recent program brief for the Regional Growth Fund and would consider it for any future RJIP funding round.

34 There was one exception to this. In the North Coast NSW region, Infrastructure reached a point where $83,876 remained in the funding cap. The department skipped over RJIP60016 which requested $60,000 and was ranked 13 (as well as other applications ranked 14, 15, 16 and 17 that also could not be accommodated within the funding cap) and, instead, recommended RJIP59967 which had requested $80,000 and was ranked 18.

3.10 There were errors in the application of rankings based on the assessment score in relation to five applications across four regions. The ANAO's analysis was that the risk of this impacting on the applications being recommended for funding approval was not realised.

Were the reasons for funding decisions clearly documented, including where they differed from funding recommendations?

Reasons for funding decisions were documented. There was a high incidence of funding recommendations not being agreed to with the Ministerial Panel not approving 28 per cent of applications the department had recommended, and instead approving 17 per cent of applications that had not been recommended (the proportion of overturn decisions increased over time). Typically, where the decision was to not award funding for a project the department recommended be approved, or to approve funding for a project the department had not recommended, the recorded reasons identified which criteria the Ministerial Panel considered had been scored incorrectly. The Panel records did not include a re-scoring of those applications. This adversely affected accountability as it meant there was not a clear line of sight between the departmental assessment results, the subsequent adjustments by the Ministerial Panel and the funding decisions.[35]

3.11 Appropriately documenting and reporting decisions relating to grant opportunities are key elements of probity and transparency in grants administration. Under the CGRGs, the Minister must record in writing the basis for the approval and must report annually on all instances where they have decided to approve a grant which the relevant official has recommended be rejected.

3.12 Funding decisions were made by the Panel in relation to 634 applications. This comprised all applications that had not been withdrawn, with the Panel provided information on all eligible applications that had been merit assessed, as well as information on those applications that had been assessed as ineligible.

3.13 In aggregate, Infrastructure had recommended approval of funding for 232 applications. There were 132 applications where the Panel's funding decision differed from the departmental recommendation. This comprised 64 of the 232 recommended applications (28 per cent) that were not approved (those 64 applications had sought $75.9 million in grant funding) and 68 applications that were approved by the Panel[36] but which the department had not recommended (involving $77.4 million in requested grant funding).

3.14 Funding decisions were recorded on three separate dates:

- 18 December 2017 for Geelong, North Coast and South Coast. These approvals were recorded by the Panel Chair in relation to recommendation briefings provided by Infrastructure in October and November 2017. Departmental records state that the Panel had met on 29 November 2017 in relation to the projects to be funded in these three regions.

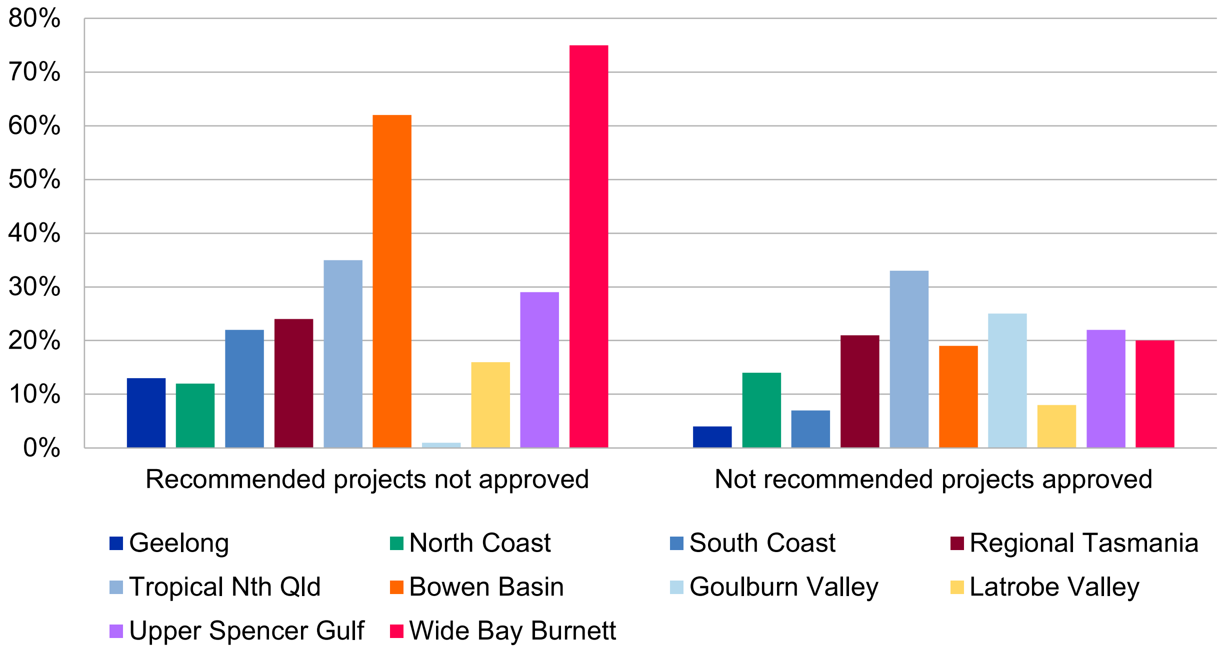
35 Re-scoring had been undertaken in the previous competitive regional grant program audited by the ANAO.

36 From the 402 applications the department had not recommended for funding approval.

- 20 March 2018 for Tropical North Queensland and Regional Tasmania. Departmental records state that the Panel met on 7 February 2018 in relation to the projects to be funded in these regions. The recommendations briefing for each region had been provided two days prior to the meeting.
- 19 April 2018 for the remaining five regions. Meetings for those regions were recorded as having occurred on 7 February (Wide Bay Burnett and Bowen Basin) and 1 March 2018 (Wide Bay Burnett again, Goulburn Valley, Upper Spencer Gulf and Latrobe Valley). Departmental funding recommendation briefings for these regions had been provided to the Panel on 5 February for four of the regions and on 12 February 2018 for Latrobe Valley.

3.15 The frequency with which the Panel did not approve projects recommended for funding increased over time from 17 per cent of the decisions recorded for three regions on 18 December 2017, to 28 per cent of the decisions recorded for two regions on 20 March 2018 and to 35 per cent of the decisions recorded on 19 April 2018 in respect to the remaining five regions. As illustrated by Figure 3.1, decisions to not award funding to recommended projects occurred most often for the Bowen Basin and Wide Bay Burnett regions (where the rate at which these decisions were made was more than three times the average across the other eight regions).

Figure 3.1: Funding decisions that differed from recommendations by region



Note: The denominator for the first series (recommended but not approved) is the number recommended and the denominator for the second series (not recommended but approved) is the number not recommended.

Regions listed in order in which Ministerial Panel's funding decisions recorded.

Source: ANAO analysis of departmental records.

3.16 The reasons recorded for funding decisions that differed from departmental recommendations were provided in writing to Infrastructure by staff in the office of the Panel Chair. Departmental staff were not in attendance at any of the Panel meetings and the meetings were not minuted. The reasons provided to the department for not approving a recommended project predominantly related to the Panel considering that the assessment of claims against the second and third criteria had been overstated.[37] Similarly, in awarding funding to applications that had not been recommended, it was the second and third criteria that were most often referenced as having been understated in the assessment of applicant claims.

3.17 While the records identified which criteria the Panel considered had been under- or over-scored, there was no re-scoring of the applications. This approach provided less transparency than that adopted in the previous competitive regional grants program audited by the ANAO where applications were re-scored by the relevant Ministerial Panel when they disagreed with the departmental assessment.[38] For example, in Wide Bay Burnett:

- none of the eight highest applications ranked and scored the highest were awarded funding (with scores between 81 and 87 out of 100); and
- the lowest ranked application that was approved for funding had scored 58 out of 100 (which placed it as the 56th project out of 61 on the department's ranking list) with the decision record stating that the scores awarded against the second and fourth criteria had been 'significantly understated'.

Recommendation no.3

3.18 The Department of Infrastructure, Transport, Cities and Regional Development implement processes for decision-makers to re-score grant applications in circumstances where they disagree with the scoring presented by the department.

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

3.19 *Following the assurance review in 2018, the Department has implemented a quality assurance check on a sample of assessments during the process to ensure the assessments are complying with agreed procedures. These assurance arrangements are likely to minimise the need to re-score applications.*

3.20 As noted at paragraph 3.11, Ministers must report annually on all instances where they have decided to approve a grant which the relevant official has recommended be rejected. As identified at paragraph 2.7, one application that was assessed as ineligible was approved for funding by the Ministerial Panel. This decision was reported to the Finance Minister in accordance with the CGRGs. No other overturn decisions were reported to the Finance Minister in relation to RJIP.

3.21 The remaining overturn funding decisions were in relation to 67 applications assessed as being 'value with relevant money' but that had not been scored highly enough to be recommended for funding. The department did not specifically recommend that those 67 applications be rejected.

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37 Of the applications that had been recommended but not approved for funding, the recorded reasons related to the second and/or third criterion 92 per cent of the time. There were no instances where the record stated that the score against the first criterion had been overstated. Five applications (two scored 86 and the other three scored 69, 71 and 88) were not approved for funding with the Panel not recording any disagreement with the assessment scoring for those applications.

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

The reporting obligation does not apply to the approval of all not recommended applications, only any not recommended applications that the department has explicitly recommended be rejected.

Was there any evidence of distribution bias in the assessment and decision-making processes?

There was no bias clearly evident in the assessment and decision-making processes. Decisions to not approve recommended applications occurred in two Queensland regions at a rate more than three times the average across the other eight regions; these decisions affected five electorates each of which was held by the Coalition.

Distribution bias in the decision-making processes

3.22 The ANAO examined a number of factors to determine whether there was distribution bias in the decision-making processes. The ANAO's analysis did not indicate that:

- the Panel was giving preference to projects that were creating more jobs (both during and beyond the project period) than the jobs being offered by the recommended projects (see Tables A.1, A.2, A.3 and A.4 in Appendix 2)[39];
- a particular entity type was being preferred by the Panel over those recommended by the department (see Table A.5 and A.6 in Appendix 2); and
- particular types of industries were preferred as funding recipients.

Electoral distribution

3.23 The 10 RJIP regions covered all or part of 32 Federal electorates of which, at the time funding was awarded, 17 were held by the Coalition, 12 by the Australian Labor Party, two by minor parties and one by an Independent.

3.24 One of the Parliamentary requests for an audit of the RJIP program (see paragraph 1.13) raised concerns that there was a heavy weighting in the funding awarded in the South Coast region to the Liberal Party held electorate of Gilmore compared with the Australian Labor Party held electorate of Eden-Monaro.[40] The ANAO's analysis of the application, assessment and decision-making for this region was that:[41]

- the significant majority of eligible applications related to projects located in Gilmore (75 per cent of applications involving 82 per cent of grant funding requested) and the funding awarded largely reflected this distribution (73 per cent of successful applications involving 89 per cent of funding awarded was for projects located in Gilmore);

39 One of the key objectives of the RJIP program was to create jobs.

40 Refer to the correspondence to the Auditor-General from Dr Mike Kelly MP dated 6 April 2018 available at https://www.anao.gov.au/work/request/regional-jobs-and-investment-package-south-coast-new-south-wales.

41 Information is not publicly available to Parliamentarians and other stakeholders on the grant applications received, assessment results and funding recommendations.

- 15 per cent of Panel decisions differed from departmental recommendations. Across the program, 21 per cent of decisions differed from recommendations, with four regions having a rate lower than South Coast, and five regions a higher rate[42]; and
- there were four projects located in Eden-Monaro that had been recommended for funding approval that were not approved by the Panel and similarly three projects located in Gilmore that were recommended but not approved by the Panel. The only projects in the region that were approved for funding at odds with the departmental recommendation that they not be approved were both located in Gilmore.

3.25 More broadly, the ANAO's analysis was that similar distributions between the political parties were reflected at different stages of RJIP (see Table 3.2).

Table 3.2: Recommendation and approval rates by political party

Party holding electorate	Applications received[a]		Recommended rate		Approval rate	
	#	$m	#	$	#	$
Australian Labor Party	217	162.45	32%	31%	35%	29%
Coalition	397	443.69	39%	37%	37%	38%
Other	20	24.57	45%	19%	55%	21%
Overall	**634**	**630.71**	**37%**	**35%**	**37%**	**35%**

Note a: Excludes withdrawn applications.

Source: ANAO analysis of departmental records and Australian Electoral Commission data.

3.26 The ANAO also analysed the electorate distribution of the 132 funding decisions that differed from departmental recommendations (recommended projects that were rejected and not recommended projects that were approved). As illustrated by Table 3.3, overturn decisions predominantly related to projects located in a Coalition electorate.

Table 3.3: Distribution by political party of overturn decisions

Party holding electorate at project location	Rejected from those recommended for funding (% of total)		Approved from those not recommended for funding (% of total)	
	#	$m	#	$m
Australian Labor Party	17 (27%)	17.95 (24%)	25 (37%)	13.63 (18%)
Coalition	47 (73%)	57.92 (76%)	41 (60%)	63.36 (82%)
Other	0 (0%)	0 (0%)	2 (3%)	0.45 (1%)
Total	**64**	**75.87**	**68**	**77.44**

Source: ANAO analysis of departmental records and Australian Electoral Commission data.

42 The lowest rate was Geelong with 8 per cent, with the highest rates being Wide Bay Burnett at 34 per cent and Bowen Basin at 35 per cent.

3.27 As discussed in paragraph 3.15 and illustrated in Figure 3.1, overturn funding decisions occurred most often in the Bowen Basin and Wide Bay Burnett regions. The electorates covered by those two regions were all held by the Coalition. For those regions, as well as the remaining seven regions, the ANAO analysed the overturn decisions in terms of whether there was a strong bias to reduce the amount of grants and/or grant funding in some electorates compared with other electorates in the same region.[43] With the caveat that, for some electorates, the number of grants involved was quite small, it was not evident from this analysis that the Panel was preferencing some electorates in the region over others.

Grant Hehir
Auditor-General

Canberra ACT
5 November 2019

43 In Bowen Basin, the overturn decisions reduced the number of grants and amount of grant funding for the electorate of Capricornia in favour of Flynn and, to a lesser extent, Dawson. In Wide Bay Burnett, the overturn decisions reduced the number of grants and amount of grant funding for the electorates of Flynn and Hinkler in favour of Wide Bay.

Appendices

Appendix 1 Entity responses

Australian Government
Department of Infrastructure, Transport, Cities and Regional Development

A/g Secretary
Pip Spence PSM

PDR ID: EC19-000956

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

Dear Mr Hehir

Auditor-General Proposed Audit Report on the Award of Funding under the Regional Jobs and Investment Packages

Thank you for providing the Department of Infrastructure, Transport, Cities and Regional Development (the Department) with the opportunity to comment on the Australian National Audit Office's (ANAO's) proposed audit report on the award of funding under the Regional Jobs and Investment Packages.

The Department acknowledges the ANAO's overall conclusions and welcomes the recommendations. The Department's summary response and response to each of the recommendations is attached.

Please contact Donna Wieland, General Manager, Regional Programs on 02 6274 7446 if you would like to discuss this response.

I would like to thank the ANAO for the cooperation of the audit team and the professional manner in which the audit was conducted.

Yours sincerely

Pip Spence PSM, A/g Secretary

15 October, 2019

GPO Box 594 Canberra ACT 2601 Australia • Telephone: 02 6274 7573 • Facsimile: 02 6274 8166
Website: www.infrastructure.gov.au • ABN 86 267 354 017

Australian Government
Department of Industry, Innovation and Science

OFFICE OF THE SECRETARY
DR HEATHER SMITH PSM

Mr Grant Hehir
Auditor General
Australian National Audit Office
19 National Circuit
Barton, ACT 2600

Dear Mr Hehir

Thank you for your correspondence of 20 September 2019 seeking comment from the Department of Industry, Innovation and Science on the proposed audit report for the performance audit of Award of Funding under the Regional Jobs and Investment Package.

The department acknowledges the report's recommendations, both those that relate to the Department of Infrastructure, Transport, Cities and Regional Development (DITCRD) as well as the key messages for all Australian Government entities. As a shared service provider for Commonwealth grants through the Business Grants Hub (BGH), we will disseminate those messages to our partner agencies, as well as incorporate them into our practice.

Since 2017, the department has made a number of improvements in the administration of the BGH and continues to mature these processes. The Regional Jobs and Investment Package was one of the first programs delivered through the BGH and the first program to use an outsourced assessment arrangement through a third party delivery provider. In 2018, DITCRD commissioned an assurance review on the extent to which the RJIP was conducted in accordance with the Commonwealth Grant Rules & Guidelines (CGRGs), and better practice. We worked co-operatively with them on this review.

Assessment Processes and Decision Making
The BGH has introduced a number of processes to ensure quality outcomes from the assessment processes. During the design phase the department works closely with policy partners to develop an assessment methodology and framework that achieves the desired policy outcomes, including ensuring value for public money. As part of the assessment process the BGH will provide a sample of the assessments for the policy partner to consider which gives both parties the opportunity to adjust the assessment framework should this be required.

The department undertakes a post-implementation review for programs that are ongoing or rounds based, which gives further opportunity to improve processes and adjust guidance should this be required. The department has also made improvements to the grants management system which eliminates uncertainty around eligibility assessments.

Industry House - 10 Binara Street, Canberra City, ACT 2601 - GPO Box 2013 Canberra ACT 2601 - **www.industry.gov.au** - ABN: 74 599 608 295

The department notes the findings in the report around the documentation of eligibility assessments, and recognises that while all applicants assessed as eligible had met these requirements the assessments were not sufficiently documented in all cases and therefore could not be substantiated by the ANAO. We have made improvements to our record-keeping procedures, including new functionality into our grants management system, to address this.

The BGH is currently developing and embedding an updated Service Offer and Service Catalogue, a Quality Framework and an Assurance Framework, which will further assist with improved assurance and transparency.

Training
The department notes that training attendance was not backed by adequate record keeping and is addressing this. Recent improvements to training processes include greater focus in the training documentation provided to assessors on the program aspects and separating out the systems and process requirements.

KPMG has been engaged to review the current suite of training materials against best practice requirements and identify opportunities for improvement and develop a suite of training material and templates that can be used for each program across the whole program lifecycle.
This work will be completed by the end of 2019.

Conflict of Interest procedures
The audit notes that *conflicts of interest management was not to a consistently appropriate standard*. As a result of the findings of the 2018 assurance review, the department updated its conflict of interest processes so that assessors are required to declare conflicts of interest prior to the commencement of an assessment. In addition, all grant program application forms require applicants the opportunity to declare conflicts of interest.

Attached is the department's summary response to the report.

Yours sincerely

17 October 2019

Appendix 2 Distribution bias analysis

Table A.1: Distribution by employment numbers during the project period of funding approved

Job numbers	Requested in eligible applications		Recommended by the Department		Approved by the Ministerial Panel	
0–15	425	68%	158	68%	157	67%
16–40	143	23%	53	23%	55	23%
>40	54	9%	21	9%	24	10%

Source: ANAO analysis of departmental records.

Table A.2: Distribution by employment numbers during project period of overturns

Job numbers	Rejected from those recommended for funding		Approved from those not recommended for funding	
0–15	40	63%	39	57%
16–40	17	27%	19	28%
>40	7	11%	10	15%

Note: The table uses the total number approved as the denominator for approved from those not recommended.

Source: ANAO analysis of departmental records.

Table A.3: Distribution by employment numbers beyond project period of funding approved

Job numbers	Requested in eligible applications		Recommended by the Department		Approved by the Ministerial Panel	
0–15	394	63%	141	61%	140	59%
16–40	125	20%	55	24%	50	21%
>40	103	17%	36	16%	46	19%

Source: ANAO analysis of departmental records.

Table A.4: Distribution by employment numbers beyond project period of overturns

Job numbers	Rejected from those recommended for funding		Approved from those not recommended for funding	
0–15	38	59%	37	54%
16–40	17	27%	12	18%
>40	9	14%	19	28%

Note: The table uses the total number approved as the denominator for approved from those not recommended.

Source: ANAO analysis of departmental records.

Table A.5: Distribution by organisation type of funding approved

Organisation Type	Requested in eligible applications		Recommended by the Department		Approved by Ministerial Panel	
Incorporated Company	384	62%	131	56%	139	59%

Organisation Type	Requested in eligible applications		Recommended by the Department		Approved by Ministerial Panel	
Local Government Agency or Body	74	12%	41	18%	37	16%
Non-Profit Organisation	79	13%	36	16%	35	15%
Trust	85	14%	24	10%	25	11%

Source: ANAO analysis of departmental records.

Table A.6: Distribution by organisation type of overturns

Organisation Type	Rejected from those recommended for funding		Approved from those not recommended for funding	
Incorporated Company	30	47%	38	56%
Local Government Agency or Body	14	22%	10	15%
Non-Profit Organisation	11	17%	10	15%
Trust	9	14%	10	15%

Source: ANAO analysis of departmental records.