

Implementation of the Great Barrier Reef Foundation Partnership

Great Barrier Reef Foundation

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Canberra ACT

5 May 2021

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 Great Barrier Reef Foundation. The report is titled *Implementation of the Great Barrier Reef Foundation Partnership*. 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.

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Audit snapshot

Auditor-General Report No.35 2020–21

Implementation of the Great Barrier Reef Foundation Partnership



Why did we do this audit?

- ▶ The Reef Trust Partnership (RTP) was established by a grant awarded through a non-competitive process. The ability to leverage the \$443.3 million grant to raise funds from the private and philanthropic sectors was a key reason the foundation was given the grant. After receiving the grant, a fundraising target of \$357 million was set, including \$157 million in cash.



Key facts

- ▶ The foundation, along with contracted research and delivery partners, is to spend at least \$822 million to improve the health of the Great Barrier Reef.
- ▶ As at 31 December 2020, the foundation had spent or committed \$154.8 million and research and delivery partners had been contracted to contribute a further \$46.5 million. The foundation reported fundraising was impacted by the 2018–19 external environment and COVID-19.
- ▶ The \$157 million cash fundraising target does not have to be received or spent by the end of the RTP.



What did we find?

- ▶ The design and early delivery of the RTP has been partially effective.
- ▶ The Australian Government grant has been appropriately invested.
- ▶ The foundation reports having raised \$53.6 million to December 2020, of which the majority is from in-kind contributions.
- ▶ While competitive selection processes have been employed most of the time when awarding grant funding, there has been insufficient use of open and competitive approaches for procurements.
- ▶ As the grant agreement does not define what constitutes RTP administration costs, the foundation has applied its own internal business rules.



What did we recommend?

- ▶ The Auditor-General made seven recommendations addressing bank deeds, fundraising, subcontracting the delivery of reef protection projects and administration costs.
- ▶ The foundation agreed to all seven recommendations.

\$684,100

reported cash raised to December 2020 through individual giving, corporate donors and philanthropists against a \$157 million target.

\$285.7m

of Australian Government grant funding still to be spent by the foundation on improving the health of the reef.

Summary and recommendations

Background

1. On 28 June 2018, the Department of Agriculture, Water and the Environment (DAWE¹ or the department) paid a \$443.3 million grant to the Great Barrier Reef Foundation (the foundation). To be delivered over six years, the objective of the 'Reef Trust Partnership' (RTP or the partnership) grant is to 'achieve significant, measureable improvement in the health of the Great Barrier Reef World Heritage Area'.
2. The total value of the partnership over its six years is estimated to be \$822 million. This comprises:
 - the Australian Government grant funding of \$443.3 million, with funding allocated to six components: administration of the partnership by the foundation; water quality improvement; crown-of-thorns starfish control; reef restoration and adaptation science; Indigenous and community engagement; and integrated monitoring and reporting;
 - interest earned by the foundation on the grant funds, of which the first \$21.8 million may be applied to the foundation's administration costs with any interest above that amount applied to one of the project delivery components of the partnership; and
 - \$357 million the foundation has targeted to raise by leveraging the Australian Government grant funds. This comprises \$200 million by way of in-kind contributions from delivery partners the foundation contracts with and \$157 million in cash fundraising.

Rationale for undertaking the audit

3. This is the second audit examining the Australian Government's \$443.3 million partnership with the foundation. The first audit, Auditor-General Report No. 22 2018–19², focused on the assessment and decision making processes that led to the award of an ad hoc grant to the foundation through a non-competitive process.
4. As of March 2021, the \$443.3 million grant to the foundation is the largest Australian Government grant that has been reported on the Department of Finance's GrantConnect website. In responding to the first audit, DAWE identified that the partnership with the foundation was an innovative model that could be adopted to address other policy priorities for Australia. In addition, the department stated that the foundation had 'established an ambitious fundraising target of \$300-400 million' (the ability to leverage Australian Government funding to raise funds from the private and philanthropic sectors was a key reason the foundation was awarded the grant funding).

1 At the time the grant agreement was executed, the administering entity was the Department of the Environment and Energy. Following an Administrative Arrangements Order made on 5 December 2019, the Department of Agriculture, Water and the Environment became the entity responsible for the administration of the partnership from 1 February 2020.

2 Auditor-General Report No. 22 2018–19 *Award of a \$443.3 million Grant to the Great Barrier Reef Foundation*.

5. Given the strong parliamentary and public interest in the partnership, this audit was undertaken to examine the implementation of the partnership.

Audit objective and criteria

6. The objective of the audit was to examine whether the design and early delivery of the Australian Government's \$443.3 million partnership with the foundation has been effective.

7. To form a conclusion against the objective, the following high level criteria were adopted:

- Has the grant funding been appropriately invested by the foundation since the commencement of the partnership?
- How successful has the foundation been in using the grant to attract co-investment?
- Is an appropriate approach being taken to the delivery of the partnership, including through subcontractors?
- Is the amount being spend on administration and fundraising costs under control?

Conclusion

8. The design and early delivery of the Australian Government's \$443.3 million partnership with the foundation has been partially effective.

9. The \$443.3 million Australian Government grant has been appropriately invested. The majority of the funds have been held in various term deposits with six banks, with 81 per cent of the grant amount still in term deposits as at 31 December 2020. The department and the foundation did not ensure that bank deeds were always in place to protect the Australian Government's interests for each of the term deposits. Interest earnings are expected to be sufficient to provide at least \$21.825 million in funding towards the foundation's costs of administering the partnership.

10. While the foundation has established an overarching target of leveraging the Australian Government grant to raise \$357 million, there are no interim targets which would enable it to track its progress and measure its success to date. The foundation reports having raised \$53.6 million to December 2020, of which the majority (99 per cent) is from in-kind contributions.

11. The foundation's use of grants and procurements is an appropriate approach to delivering the partnership. While competitive selection processes have been employed most of the time when awarding grant funding, there has been insufficient use of open and competitive approaches for procurements. For grants awarded through non-competitive processes and for the majority of procurements (both competitive and non-competitive), it has been common for selection criteria to not be specified. In addition, written contracts have not always been put in place by the foundation.

12. The foundation has reported to the department that it had spent or has committed to spend \$19.7 million on administration and fundraising to 31 December 2020, and budgets that it will not exceed the capped provision of \$44.3 million for its administration and fundraising costs over the remaining three and a half years of the partnership. As the grant agreement does not define what constitutes partnership administration costs, the foundation has applied its own internal business rules to decide which costs are allocated against the capped provision, and

which it can allocate to the project delivery components of the partnership. The foundation has not consistently implemented arrangements to cap the administration costs of its subcontractors.

Supporting findings

Investment of grant funds

13. On 25 July 2018, the foundation invested \$434.33 million (98 per cent of the upfront grant) into a portfolio of nine term deposits with six Australian banks. The remainder of the grant was retained in the foundation's RTP operating account, with further funds transferred to the operating account over time as they have been required to meet costs. As of 31 December 2020, \$358.7 million (81 per cent of the grant amount) was invested in various term deposits.

14. The approach to selecting banks for term deposits was appropriate. The approach to selecting investment advisers was not open or sufficiently competitive.

15. In accordance with the grant agreement, investment in term deposits with six Australian banks has been 'conservative and not speculative'. The security of the investments has been undermined by bank deeds not always being in place to cover term deposits with two of the six banks.

16. Investments are on track to generate more than the \$21.8 million income needed to fund the foundation's administration costs. Interest above that amount is required to be applied to project delivery components of the partnership.

Using the grant to leverage other funding

17. Co-investment targets were set by the foundation in September 2018, agreed to by the department on 10 October 2018 and published on the foundation's website two days later. Across four fundraising streams, the overall target is to raise \$357 million by June 2024 comprising \$200 million of in-kind contributions from research and delivery partners and \$157 million in cash contributions. While the published co-investment strategy states that the fundraising campaign would increase RTP investment by \$300 million to \$400 million over the six years to 30 June 2024, the grant agreement does not require that leveraged funds be received or spent during the term of the partnership.

18. As at December 2020, 70 delivery partners had identified that they would make in-kind contributions totalling \$53.1 million towards projects that, combined with others, were to receive Australian Government funding of \$134.3 million (a contribution rate of 39 cents for each dollar granted). In total, 30 per cent of the promised in-kind contributions were not included in the grant agreements and contracts signed by the foundation meaning funding recipients were not obligated to deliver their promised contribution. In addition, for the small number of projects that have been completed and acquitted, it has been common for partner contributions to be less than promised, with 23 per cent of the expected in-kind contributions not reported as having been provided by the partner, with inconsistent follow-up action being taken by the foundation in respect to the shortfalls in contributions.

19. The foundation has secured a total of \$684,100 in cash contributions. This comprises \$504,099 secured from individuals against the \$7 million individual giving target over the life of

the partnership. One commitment of \$180,000 has been secured from a corporate donor, compared with a target from corporate donors of \$50 million by 30 June 2024, and no commitments have yet been secured against the June 2024 \$100 million target that is focused on philanthropists.

20. As interim fundraising targets have not been set, it is difficult to assess whether appropriate progress is being made towards the fundraising targets. By 31 December 2020, \$5.5 million has been reported as raised through cash contributions and acquitted in-kind contributions from research and delivery partners against the overall target of \$357 million. In addition to the acquitted in-kind contributions, a further \$46.5 million of in-kind contributions has been contracted to be received.

Project delivery

21. The major delivery methods used by the foundation, being subcontracting through grants and procurement, are appropriate. Subcontracting is provided for in the head agreement between the foundation and the Australian Government. That agreement requires the foundation to generally apply the principles of open, transparent and effective competition, value for money and fair dealing and to use rigorous and robust assessment criteria.

22. The majority of grants awarded and grant funding has involved competitive processes. There has been insufficient use of open and competitive processes when undertaking procurements. Despite the foundation's procurement policy advocating the use of competitive processes, in practice the most common procurement approach employed has been to sole source providers, with 71 per cent of the 171 procurements analysed by the ANAO having no competition and the foundation often exempting itself from employing a competitive approach. The foundation has undertaken seven open tender processes for its higher value procurements, notwithstanding the expectation outlined in its policy for open tenders for all procurements with a value above \$250,001 (of which there have been 14).

23. The foundation has not consistently adopted and applied appropriate selection criteria. While appropriate criteria have been developed and applied when awarding grants through competitive processes (more than 90 per cent of grants contracted) this has not been consistently the case with grants awarded through non-competitive processes. Only 22 per cent of procurement processes had clearly identified criteria.

24. Written contracts have not been put in place for all expenditure that has occurred under the partnership. It has been common for appropriate contractual arrangements to be in place for project delivery arrangements, which has been largely undertaken through grant agreements. The absence of written contracts largely involved procurements relating to the administration of the partnership.

Administration costs

25. Up to 31 December 2020, the foundation had reported total expenditure on administration and fundraising costs of \$18.5 million with a further \$1.2 million in commitments. This leaves \$24.6 million available to spend on administration and fundraising over the remaining three and a half years of the partnership.

26. An appropriate methodology is in place to calculate, and benchmark, administration and fundraising efficiency of the partnership for the purposes of public reporting. The foundation has obtained consultancy advice on its approach, and this included a comparison to a sample of three Australian-based major environmental conservation focused not-for-profit entities. Reporting by the foundation is that its spending on partnership administration over the six years to 30 June 2024 will not exceed the capped provision of \$44.3 million.

27. The head agreement between the Australian Government and the foundation does not define what is considered an administration cost (and is therefore subject to the cost cap). The foundation has applied its own internal business rules to decide which costs are to be counted against the capped provision for administration of the partnership, and which costs can be allocated against the five non-administration components of the partnership.

28. Fully effective arrangements are not in place to limit the administration cost of subcontractors to the contracted cap of 10 per cent.

Recommendations

Recommendation no. 1 The Great Barrier Reef Foundation and the Department of Agriculture, Water and the Environment ensure a bank deed protecting the Australian Government is in place before any Reef Trust Partnership funds are invested with a financial institution.
Paragraph 2.23

Great Barrier Reef Foundation response: *Agreed.*

Department of Agriculture, Water and the Environment response: *Agreed.*

Recommendation no. 2 The Great Barrier Reef Foundation:
Paragraph 3.21

- include the extent to which funding candidates will provide a cash or in-kind contribution as a selection criterion for all project delivery grants and procurements; and
- follow up with partners where acquittals do not demonstrate that contracted contributions have been provided in full.

Great Barrier Reef Foundation response: *Agreed.*

- Recommendation no. 3
Paragraph 3.38** In consultation with the Department of Agriculture, Water and the Environment, the Great Barrier Reef Foundation develop, agree and report against interim fundraising targets for each stream of the approved co-investment strategy so as to provide a better indication of how much of the fundraising target will be received by the end of the Reef Trust Partnership on 30 June 2024.
- Great Barrier Reef Foundation response:** *Agreed.*
- Department of Agriculture, Water and the Environment response:** *Agreed.*
- Recommendation no. 4
Paragraph 4.28** To ensure compliance with the Reef Trust Partnership agreement, the Great Barrier Reef Foundation increase the extent to which it uses open and competitive selection processes to undertake procurements.
- Great Barrier Reef Foundation response:** *Agreed.*
- Recommendation no. 5
Paragraph 4.42** The Great Barrier Reef Foundation:
- specify clear selection criteria for all granting opportunities and procurement processes, including those that do not involve a competitive selection process; and
 - record an assessment against those criteria in advance of taking any decisions to commit to spending Reef Trust Partnership funding.
- Great Barrier Reef Foundation response:** *Agreed.*
- Recommendation no. 6
Paragraph 4.52** To ensure compliance with the Reef Trust Partnership agreement, the Great Barrier Reef Foundation strengthen its subcontracting controls to ensure a written contract that contains all of the applicable provisions required by the head agreement with the Australian Government is in place before any subcontractor commences work.
- Great Barrier Reef Foundation response:** *Agreed.*
- Recommendation no. 7
Paragraph 5.24** The Great Barrier Reef Foundation in consultation with the Department of Agriculture, Water and the Environment, strengthen its approach to implementing the cap on administration costs of subcontractors.
- Great Barrier Reef Foundation response:** *Agreed.*
- Department of Agriculture, Water and the Environment response:** *Agreed.*

Summary of entity responses

29. The proposed audit report was provided to the foundation. The foundation's summary response is provided below and its full response is at Appendix 1.

30. Extracts of the proposed audit report were provided to DAWE. The department's summary response is provided below and its full response is at Appendix 1.

Great Barrier Reef Foundation

The Foundation welcomes the Auditor-General's findings in the report, and is pleased to note comments in relation to the appropriateness of:

- Investment of grant money.
- Major delivery models.
- The Foundation's methodology for calculating and benchmarking administration and fundraising efficiency.

These are significant milestone achievements that reflect the hard work of our team, our volunteer Board of Directors and Committee members, and the many dedicated and passionate partners the Foundation works with to deliver projects that are vital to the survival of the Great Barrier Reef.

The Foundation notes the Auditor-General has identified improvement opportunities in some aspects of the delivery of the RTP. The Great Barrier Reef Foundation agrees to, and has commenced the implementation of, all seven recommendations in the report. We are committed to the continuous improvement of our processes and procedures and will establish (where required) and strengthen (where already in place) arrangements to ensure successful implementation of improvements.

Department of Agriculture, Water and the Environment

The Department of Agriculture, Water and the Environment (the department) is committed to appropriate and timely implementation of agreed recommendations to both ANAO and parliamentary committee reports. The department welcomes the report's findings that will help strengthen the implementation of the Australian Government's signature investment in the Great Barrier Reef.

There have been seven recommendations made in this report, three of which the department will be responding to directly. All recommendations for the department relate to strengthening our existing controls for the administration of this very important grant. We welcome the opportunity to continue to work in partnership with the Great Barrier Reef Foundation to improve these controls and apply those learnings to our grant management practices more broadly.

The Great Barrier Reef Foundation are midway through delivering the grant aimed at protecting the Great Barrier Reef. We look forward to reporting the outcomes of their on-ground projects in the coming years.

Key messages from this audit for all Australian Government entities

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

Governance and risk management

- Successful leveraging of Australian Government funding can be supported by establishing interim targets to track fundraising progress as this encourages a focus on the overall goal. It is also important that plans and budgets be established so that the funds raised are spent in a timely and effective manner.
- The effectiveness of cost control mechanisms such as caps is undermined if there are not clear definitions and strong controls in place to correctly classify and report expenditure.

Procurement

- There is a strong link between the principles of value for money and competitive procurement processes. The more competitive the procurement process, the better placed an entity is to demonstrably achieve value for money.

Grants

- Key terms should be defined in the grant agreement, as should the timeframe over which key responsibilities are to be delivered by the grant recipient.

Audit findings

1. Background

Introduction

1.1 On 28 June 2018, the Department of Agriculture, Water and the Environment (DAWE or the department)³ paid a \$443.3 million grant to the Great Barrier Reef Foundation (the foundation). To be delivered over six years, the objective of the 'Reef Trust Partnership' (RTP, or the partnership) grant is to 'achieve significant, measureable improvement in the health of the Great Barrier Reef World Heritage Area'. The partnership funding is divided into six 'components' (see Table 1.1).

Table 1.1: Summary of the six components of the Reef Trust Partnership

Component name		Component objective	Funding
1	Administration	Ensure good governance is in place, including systems and processes, and that effective project management and scaling-up activities are being undertaken.	\$22,505,000 ^a
2	Water Quality	Address water quality improvement targets impacting the Great Barrier Reef World Heritage Area (the reef) through activities such as improved farming practices, reduced fertiliser user and uptake of new technology and land management practices.	\$200,649,000
3	COTS Control	Expand efforts to control Crown-of-Thorns Starfish (COTS) to reduce coral mortality from COTS outbreaks in order to protect high ecological and economic value coral reefs in line with Great Barrier Reef Marine Park Authority's COTS Control Strategy.	\$57,800,000
4	Reef Restoration and Adaptation Science	Conduct and implement science activities to deliver and support reef restoration and adaptation for the reef.	\$100,000,000
5	Indigenous and Community Reef Protection	Improve the engagement of traditional owners and the broader community in the protection of the reef including, but not limited to, increasing compliance and enforcement action against poaching, as well as greater involvement of traditional owners in sea country management through improved and expanded use of traditional marine resource agreements.	\$22,349,000
6	Integrated Monitoring and Reporting	Support the implementation of the Reef 2050 Plan Reef Integrated Monitoring and Reporting Program including eReefs and the Paddock to Reef monitoring and reporting programs, to improve health monitoring and reporting of the reef to ensure that monitoring and our reporting to UNESCO is scientifically robust and investment outcomes are measurable.	\$40,000,000

Note a: In addition to this amount, the funding agreement allows for the foundation to use the interest that it earns on the upfront grant to cover the costs it incurs in performing component one, so long as the total amount of RTP funding used for administration activities does not exceed ten per cent of the total grant amount (that is, no more than \$44.33 million).

Source: ANAO analysis of RTP funding agreement.

3 At the time the RTP grant agreement was executed, the administering entity was the Department of the Environment and Energy. Following an Administrative Arrangements Order made on 5 December 2019, the Department of Agriculture, Water and the Environment became the entity responsible for the administration of the RTP from 1 February 2020.

Rationale for undertaking the audit

1.2 This is the second audit examining the Australian Government's \$443.3 million partnership with the foundation. The first audit, Auditor-General Report No. 22 2018–19⁴, focused on the assessment and decision-making processes that led to the award of an ad hoc grant to the foundation through a non-competitive process.

1.3 As of March 2021, the \$443.3 million grant to the foundation is the largest Australian Government grant that has been reported on the Department of Finance's GrantConnect website. In responding to the first audit, DAWE identified that the partnership with the foundation was an innovative model that could be adopted to address other policy priorities for Australia. In addition, the department stated that the foundation had 'established an ambitious fundraising target of \$300-400 million' (the ability to leverage Australian Government funding to raise funds from the private and philanthropic sectors was a key reason the foundation was awarded the grant funding).

1.4 Given the strong parliamentary and public interest in the partnership, this audit was undertaken to examine the implementation of the partnership.

Audit approach

Audit objective and criteria

1.5 The objective of the audit was to examine whether the design and early delivery of the Australian Government's \$443.3 million partnership with the foundation has been effective.

1.6 To form a conclusion against the objective the following high level criteria were applied:

- Has the grant funding been appropriately invested by the foundation since the commencement of the partnership?
- How successful has the foundation been in using the grant to attract co-investment?
- Is an appropriate approach being taken to the delivery of the partnership, including through subcontractors?
- Is the amount being spent on administration and fundraising costs under control?

Audit scope and methodology

1.7 The audit was conducted under paragraph 18B(1)(b) of the *Auditor-General Act 1997* which enables the Auditor-General to audit Commonwealth partners such as the foundation. The audit scope included the planning, design and implementation activities undertaken by the foundation for the delivery of the partnership. DAWE was included in the scope due to its role as the Australian Government administering entity of the partnership.

1.8 The audit methodology included examination of foundation and DAWE records and engagement with key staff.

1.9 The audit was conducted in accordance with the ANAO Auditing Standards at a cost to the ANAO of approximately \$785,500.

1.10 The team members for this audit were Amy Willmott, Kai Swoboda, Tessa Osborne, Jessica Carroll, Swatilekha Ahmed and Brian Boyd.

4 Auditor-General Report No.22 2018–19 *Award of a \$443.3 million Grant to the Great Barrier Reef Foundation*.

2. Investment of grant funds

Areas examined

The ANAO examined whether the \$443.3 million grant had been appropriately invested by the foundation since the commencement of the Reef Trust Partnership (RTP or the partnership).

Conclusion

The \$443.3 million Australian Government grant has been appropriately invested. The majority of the funds have been held in various term deposits with six banks, with 81 per cent of the grant amount still in term deposits as at 31 December 2020. The Department of Agriculture, Water and the Environment (DAWE or the department) and the Great Barrier Reef Foundation (the foundation) did not ensure that bank deeds were always in place to protect the Australian Government's interests for each of the term deposits. Interest earnings are expected to be sufficient to provide at least \$21.825 million in funding towards the foundation's costs of administering the partnership.

Areas for improvement

The ANAO has recommended that the management of bank deeds be improved.

2.1 To enable the grant to the foundation to be accounted for in 2017–18, it was paid in full on 28 June 2018 and some key process-related and governance controls were not able to be included in the funding agreement.⁵ The agreement requires that the investment of the grant by the foundation be conservative and not speculative. It also permits the foundation to use up to \$21.825 million of the interest earned on grant funds on administration with any interest earned above this amount to be used on non-administration components of the RTP.

2.2 The ANAO examined whether the foundation has invested the grant funds to earn sufficient interest to assist paying for the administration of the RTP; and ensured adequate security for the Australian Government over the grant funding.

Where has the grant funding been invested?

On 25 July 2018, the foundation invested \$434.33 million (98 per cent of the upfront grant) into a portfolio of nine term deposits with six Australian banks. The remainder of the grant was retained in the foundation's RTP operating account, with further funds transferred to the operating account over time as they have been required to meet costs. As of 31 December 2020, \$358.7 million (81 per cent of the grant amount) was invested in various term deposits.

2.3 The partnership agreement was signed on 28 June 2018 and \$443.3 million was paid into the foundation's RTP operating account⁶ on 29 June 2018.

2.4 Funds could not be invested elsewhere until the foundation had finalised a written investment policy. The grant agreement required that DAWE be consulted prior to the policy's

5 Auditor-General Report No.22 2018–19 *Award of a \$443.3 million Grant to the Great Barrier Reef Foundation*, pp. 31 and 45.

6 Held with the Commonwealth Bank of Australia (CBA) and in accordance with the RTP agreement.

finalisation. The policy was approved by the foundation board on 4 July 2018 and endorsed by DAWE on 12 July 2018.

2.5 Under the policy, \$434.3 million was placed into nine fixed-interest term deposits across six Australian banks on 25 July 2018. For scaling-up activities, \$9 million was retained in the operating account.

2.6 The foundation's investment approach has remained largely unchanged over time, with funds being invested in up to 17 concurrent term deposits with between four and six of the same banks at any one time. As of 31 December 2020, \$358.7 million (81 per cent of the grant amount) remains invested in term deposits.

Have the investments and investment advisers been selected through appropriate processes?

The approach to selecting banks for term deposits was appropriate. The approach to selecting investment advisers was not open or sufficiently competitive.

2.7 The investment committee of the foundation's board was responsible for overseeing the investment of the grant; the appointment of advisers; and developing the investment policy required by the grant agreement.

2.8 The committee agreed at a 19 June 2018 meeting that potential advisers would be contacted directly by committee members. Two separate advisers were engaged in July 2018 to:

- advise on the short-term investment policy and assist in developing its longer term strategy; and
- arrange the initial three month tranche of term deposits while the longer-term policy was refined.

2.9 Mercer Investments (Australia) Limited (Mercer) was engaged through a sole source arrangement for \$25,000 after being selected by the investment committee and approved by the chair of the board. The committee identified Mercer at its 19 June 2018 meeting as the most appropriate adviser for investment instruments in the short and long term.

2.10 A proposal from Mercer was provided directly to two Investment Committee members (who were also foundation directors) on 13 July 2018, and while it was noted that it was 'not cheap', directors considered it would 'help address board concerns and assure government'; and it was considered prudent to have a 'best in class' adviser due to the expected scrutiny of investment decisions.

2.11 Laminar Capital (Laminar) was engaged initially for four months to coordinate the short-term investments after being identified in mid-June 2018 by a committee member as one of two firms to quote through a limited tender process. While Laminar's proposal represented the most competitive option between the two responses⁷, it has since been retained on an ongoing

⁷ Laminar proposed a flat fee of \$2,500 per month for services to be completed in four months, whereas the other quotation involved remuneration of 3.5 basis points on each deposit facilitated (a fee of approximately \$150,000 for the placement of the initial term deposits).

basis at a 40 per cent higher rate of \$3,500 per month (for the same services under a new client services agreement).⁸ Payments to 31 December 2020 totalled \$114,950. The increased rate was approved in March 2019 and retrospectively applied to monthly services provided since November 2018.

2.12 The partnership agreement requires the foundation to ‘generally award’ each subcontract in accordance with principles of open, transparent and effective competition, value for money and fair dealing. Where the foundation elects to engage subcontractors other than as a result of an open, competitive process, it is required to report to DAWE the reasons and justifications for the approach taken.

2.13 In its July to December 2018 six-monthly report to DAWE, the foundation reported that it had engaged Mercer through a non-competitive process so as to ‘comply with a direction of the board’. It did not report that Laminar was not engaged through an open and competitive process.

Investments selection

2.14 Recommendations for the investment portfolio composition were provided by Laminar, after seeking quotes from banks on a pre-approved list. The list was from the foundation’s short-term investment policy and included 10 banks⁹ (four of which were subsidiaries of other banks on the list). The foundation provided Laminar with the approved list on 12 July 2018 and had previously indicated having ‘existing banking relationships with CBA and BOQ’.

2.15 Rates were obtained from all six parent banks.¹⁰ An initial recommendation was provided to the investment committee on 23 July 2018 for a portfolio of eight terms deposits with an average duration of less than four months and weighted average yield of 2.70 per cent. The investment committee requested a modified portfolio, for reasons including:

- BOQ carrying 24.5%¹¹ of the portfolio may be a bad optic considering Board composition¹², despite offering the best rates
- Reticence to lock the funds away for 3-6 months, suggesting some funds are tied up for a lesser period ie more ladder portfolio
- ANZ inflexibility with regards to term deposit breaks, with CBA offering almost identical returns with more flexibility.

8 This rate was renegotiated in February 2019, with Laminar advising the foundation that the monthly fee was ‘slightly higher than the first four months’ because more work was involved in the process than it had originally quoted.

9 The banks were approved by the board as having met risk requirements. The initial list of 18 institutions with investment ratings of BBB or higher (as required by the grant agreement) was reduced to 10 before it was approved by the board. The investment policy states that ‘The Investment Committee considered both name recognition risk as well as lending to carbon intensive sectors.’

10 Advice from Laminar was that due to the size of the term deposits being placed, only the parent banks would provide rates.

11 ANAO’s analysis is that this amount was 34.5 per cent. In April 2021 the foundation advised the ANAO that it ‘Agree[d] this should read 34.5 per cent. The 24.5 per cent was incorrectly written in an email from a staff member but was not reproduced in committee minutes.’

12 The Investment Committee member who had recommended Laminar was also a senior employee of BOQ at the time.

2.16 After some adjustments within the following 24 hours, approval was provided to Laminar on 24 July 2018 to execute its revised recommendation reflecting a 'laddered portfolio' with:

- a reduced concentration in both ANZ (from 11.5 to six per cent) and BOQ (from 34.5 to 17 per cent); and
- an average yield of 2.60 per cent (down from 2.70 per cent) and a reduced average duration from four down to three months.

2.17 The term deposits were executed on 25 July 2018.

Are the investments that have been made with the grant funding appropriately secure?

In accordance with the grant agreement, investment in term deposits with six Australian banks has been 'conservative and not speculative'. The security of the investments has been undermined by bank deeds not always being in place to cover term deposits with two of the six banks.

2.18 The grant agreement allows the foundation to invest the portion of funding not yet needed to deliver projects. While it allowed the foundation to decide these investments, they were to be in a manner 'consistent with sound commercial practice' and other requirements in the grant agreement. Those other requirements included:

- investment of the grant to be conservative and not speculative;
- investment of the grant in 'investment grade financial products with a long-term rating of BBB or higher by Standard and Poor's or Moody's';
- not investing in any 'related body corporate' or 'related entity'¹³ of the foundation, unless the entity is listed on the Australian Securities Exchange; and
- no part of the grant being invested in derivative financial products except for hedging risk.

2.19 The foundation's investments to date have been in term deposits with six Australian banks, which has been consistent with these requirements.

Bank deeds

2.20 The drafting of the grant agreement signed in June 2018 did not contemplate the placement of the grant into bank accounts other than the foundation's RTP operating account, for which a bank deed was to be executed. Following the investment into term deposits, it was considered necessary to execute individual bank deeds with each bank. The deeds provide the department with control over the unspent funds in certain circumstances, including in the event the grant agreement is terminated.

2.21 The grant agreement was varied in March 2019 to ensure, among other things, that term deposits are explicitly considered to be a 'bank account' for the purposes of the partnership head agreement. This was to secure the Australian Government's interests in the unspent funds and was in addition to the bank deeds executed between August and October 2018 for the term deposits.

¹³ As those terms are defined in section 9 of the *Corporations Act 2001 (Cth)*.

2.22 Relevant accounts are specified in appendices to the deeds with each bank and should be amended each time a new account is opened. Deeds were revised in early 2019 to accommodate term deposits rolling over into new accounts and executed by three banks. Action was taken with respect to the other three banks within the course of the audit. Specifically:

- although a variation to the deed with Westpac was signed in July 2020, the 2018 Westpac deed already accommodated the rolling over of term deposits by referencing a suspense account for the foundation's current term deposits;¹⁴
- a new deed was signed with CBA on 18 December 2020. Apart from a period between January to April 2019, term deposits have been held with CBA; and
- a new deed was signed with ANZ on 24 February 2021. While the foundation confirmed with DAWE in July 2020 that it did not currently hold any funds with ANZ, a new term deposit was placed with ANZ on 7 August 2020.

Recommendation no. 1

2.23 The Great Barrier Reef Foundation and the Department of Agriculture, Water and the Environment ensure a bank deed protecting the Australian Government is in place before any Reef Trust Partnership funds are invested with a financial institution.

Great Barrier Reef Foundation response: *Agreed.*

Department of Agriculture, Water and the Environment response: *Agreed.*

2.24 *The department puts a high priority on the security of the funds granted to the Great Barrier Reef Foundation, and notes that bank deeds are now in place for all the financial institutions where funds are held. The department agrees to work with the Great Barrier Reef Foundation to continue to strengthen the management of bank deeds.*

Is the investment approach and performance on track to generate sufficient income to help fund the administration costs of the foundation?

Investments are on track to generate more than the \$21.8 million income needed to fund the foundation's administration costs. Interest above that amount is required to be applied to project delivery components of the partnership.

2.25 Since the initial July 2018 investment, term deposits have been rolled over into new investments based on the interest rates being offered by the portfolio banks at the time of maturity. The foundation's November 2020 forecasting indicated that it is on track to generate \$5.3 million in excess of the \$21.8 million capped interest amount that can be used to help pay for its administration of the RTP.

14 This was confirmed by Westpac in response to the foundation in February 2021.

Term deposit durations

2.26 The July 2018 investment policy was envisaged to be short-term, with a longer-term policy to be developed later to cover longer duration investments. The short-term policy required that funds be invested in term deposits with a maximum four-month average duration and concentration of no more than 51 per cent in any one bank.

2.27 In September 2020 the foundation advised the ANAO that finalisation of the longer-term policy was placed on hold in October 2018 until after the 18 May 2019 Federal Election. This decision was taken following a September 2018 announcement by the opposition that should it win the May 2019 Federal Election it would require the foundation to return the unspent portion of the grant. The need to revise the policy was recognised throughout 2019, for reasons including the:

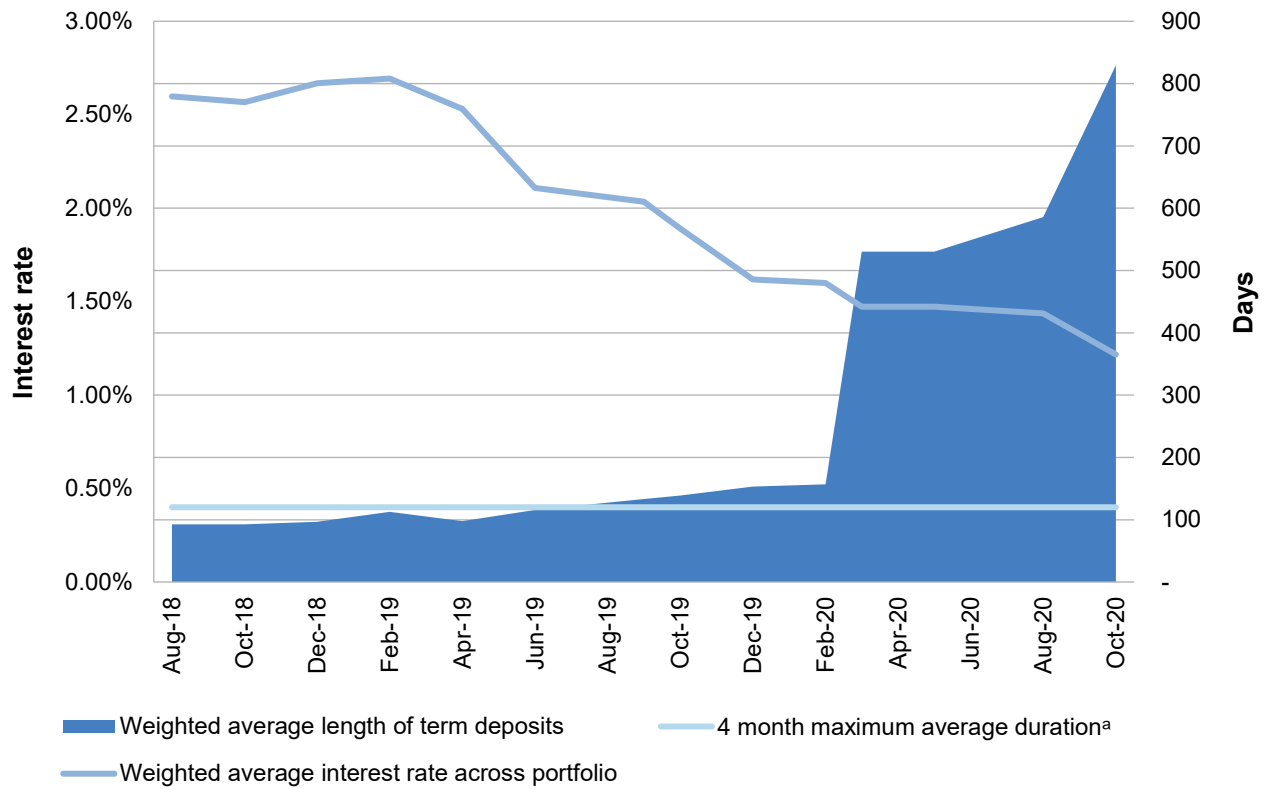
- likelihood that future interest rates would decline, rather than increase; and
- inability 'to take advantage of current interest rates and invest funds for a longer period of time' due to the policy's four-month average duration constraint.

2.28 Although this work was progressed in 2019, the policy was not updated in time to remove the four month average duration restriction before this was exceeded in September 2019. The updated policy was approved in May 2020 and no longer includes this restriction. The first term deposit to be rolled over following the election matured on 21 May 2019 (one term deposit with a value of \$51 million) with the remainder between 13 and 28 June 2019.¹⁵ By mid-March 2020, the average weighted duration had increased to over 17 months. This situation is illustrated by Figure 2.1. In April 2021, the foundation advised the ANAO that:

The Foundation's Investment Committee was able to confidently consider longer duration term deposits once management had completed a drawdown schedule for forward program funding requirements. This work was completed in February 2020 and facilitated the finalisation of the updated policy in March 2020.

¹⁵ Seven term deposits with a combined face value of \$380 million, once rolled over into new investments.

Figure 2.1: Term deposit interest rates and duration over time



Note a: Until the July 2018 investment policy was amended in May 2020, the maximum average duration of the portfolio of term deposits could not exceed four months.

Source: ANAO analysis of foundation records.

3. Using the grant to leverage other funding

Areas examined

The ANAO examined whether the Great Barrier Reef Foundation (the foundation) has been successful in using the grant to attract co-investment from other sources.

Conclusion

While the foundation has established an overarching target of leveraging the Australian Government grant to raise \$357 million, there are no interim targets which would enable it to track its progress and measure its success to date. The foundation reports having raised \$53.6 million to December 2020, of which the majority (99 per cent) is from in-kind contributions.

Areas for improvement

The ANAO has made two recommendations relating to the foundation:

- improving its approach to securing contributions from research and delivery partners; and
- adopting interim fundraising targets so as to provide a better indication of whether the foundation is likely to achieve the overall target of raising \$357 million and, if so, by what date.

3.1 The ability to leverage Australian Government funding to raise funds from the private and philanthropic sectors for improving the health of the Great Barrier Reef was a key reason the foundation was awarded the grant funding through a non-competitive granting process.¹⁶ The ANAO examined the performance of the foundation in targeting and attracting co-investment since the \$443.3 million grant was paid in June 2018.

Have co-investment targets been set?

Co-investment targets were set by the foundation in September 2018, agreed to by the department on 10 October 2018 and published on the foundation's website two days later. Across four fundraising streams, the overall target is to raise \$357 million by June 2024 comprising \$200 million of in-kind contributions from research and delivery partners and \$157 million in cash contributions. While the published co-investment strategy states that the fundraising campaign would increase Reef Trust Partnership (RTP or the partnership) investment by \$300 million to \$400 million over the six years to 30 June 2024, the grant agreement does not require that leveraged funds be received or spent during the term of the partnership.

¹⁶ Auditor-General Report No.22 2018–19, *Award of a \$443.3 million Grant to the Great Barrier Reef Foundation*, paragraphs 2.21, 2.25 and 5.29.

3.2 The grant agreement signed in June 2018 did not specify the amount of financial and/or in-kind contributions that the foundation would raise from other parties. Rather, the funding agreement required that the foundation develop and finalise a 'Co-Financing Strategy Plan' by 30 September 2018, that would:

- outline the foundation's principles and approach to co-financing for the five financial years commencing from 2019–20; and
- set out how the foundation would leverage the up-front payment of the grant to raise 'other contributions' as defined in the funding agreement.

3.3 In developing the strategy, the foundation undertook some desktop research, consulted with two organisations¹⁷ it identified as having comparable fundraising campaigns and commissioned an external peer review focussed on the philanthropic-related elements of the strategy. After a short process of consultation with the Department of Agriculture, Water and the Environment (DAWE or the department)¹⁸ and some resulting editorial adjustments, the foundation provided the final co-financing strategy to the department on 30 September 2018.

3.4 The department advised the foundation on 10 October 2018 that the contractual requirements for the strategy had been met and it was publicly released on 12 October 2018.¹⁹ Across four streams each with a five year campaign, the strategy established an overarching fundraising target of \$357 million.

3.5 As illustrated by Table 3.1, the majority (\$200 million) of the target relates to in-kind contributions from research and delivery partners. The foundation forecast that it would raise those contributions by leveraging the \$420.8 million in RTP funding allocated across the five non-administration components of the partnership. This represents an overall leverage percentage of 48 cents in the dollar.²⁰

17 These were the Art Gallery of NSW and the University of Queensland.

18 Between 18 and 27 September 2018.

19 Great Barrier Reef Foundation, *Collaborative Investment Strategy*, available at <https://www.barrierreef.org/news/media-release/australia-s-largest-ever-environmental-fundraising-campaign> [accessed 2 December 2020].

20 Different leverage targets were established for each non-administrative component of the RTP: 20 per cent for Crown-of-Thorns-Starfish control; 25 per cent for Traditional Owner reef protection cross cutting activities and 33 per cent for community reef protection activities; 34 per cent for water quality; 40 per cent for integrated monitoring and reporting; and 100 per cent for reef restoration and adaption science.

Table 3.1: Fundraising component summary

Stream	Description	Target ^a
Raised Funds		
Capital campaign	The largest marine science fundraising campaign in Australia – an intensive fundraising campaign with a focus on philanthropy and individual giving tied to the Reef Restoration and Adaptation Program (RRAP).	\$100m
Corporate giving	Developing corporate partnerships with iconic Australian businesses that deliver impact and enable planned programs, specific initiatives and activities.	\$50m
Individual giving	Five-year strategy developed to build awareness of GBRF and acquire new individual donors through regular giving, planned giving, bequests and community fundraising.	\$7m
Contributed Funds		
Research and delivery partners	Formal agreements with collaborators on projects across the RTP portfolio with an initial focus on RRAP that accurately capture the cash and resource investment made by research and delivery partners.	\$200m ^b

Note a: The co-financing strategy states that these targets are the 'median within a forecast target range'. This was not the case. Rather, a decision was taken by the board on 24 September 2018 to report a range of \$300 million to \$400 million, rather than the sum of the individual targets (\$357 million).

Note b: The foundation advised the ANAO in November 2020 that \$100 million of the \$200 million contributed funds target is associated with delivery partner contributions that were already built into the pre-RTP investment case being prepared for the Reef Restoration and Adaptation Program (RRAP or RTP component 4) and that discussions at the October 2018 International Scientific Advisory Committee (ISAC) meeting confirmed the foundation's logic and approach to the co-investment target. The remaining \$100 million was based on the assumption that, for every dollar granted across the remaining RTP components, 30 cents in leveraged support would be generated from delivery partners. This was later expanded in May 2020 by the draft acquisition strategy (see paragraph 3.8), which included a specific breakdown of where the remaining \$100 million is expected to be achieved by RTP funding component.

Source: ANAO analysis of foundation records, including the June 2020 six-monthly progress report.

Feasibility studies

3.6 The deliverables for each stream were introduced in individual phased five-year 'stage plans'. While each plan comprised tailored activities, all streams were to commence with one-year planning phases. As part of the planning phases, campaign work plans were to be completed and feasibility studies undertaken for each stream. Each target was to be tested, then confirmed or adjusted, during the feasibility studies. Implementation was to commence in the second year, with this second phase having a two year timeframe in most cases.²¹

3.7 Consultants were engaged to conduct feasibility studies for the capital campaign and individual giving in May and July 2019, respectively. No changes were made to the respective targets as a result of those studies. The feasibility studies had identified that between \$10 million and \$15 million in fundraising administration costs would be required over the five year capital campaign period. This level of fundraising administration costs was not anticipated, with the

21 Except the individual giving stream, which was one year with annual review and refinement processes for the duration of the RTP.

resourcing profile set out in the co-financing strategy allocating less funding (\$2.64 million over the five year capital campaign and \$7.3 million in total across all four fundraising streams). The resourcing profile has not been updated following the feasibility study to reflect the larger budget the feasibility studies identified as being required.

3.8 Feasibility studies were not undertaken for the remaining two streams (corporate giving and contributed funds).²² A draft 'Corporate and Contributed Funds Acquisition Strategy' was developed internally in February 2020 to address the remaining two streams. It did not seek to test the feasibility of the targets previously set. Instead, it expanded on the detail provided within the co-financing strategy and set out the range of potential partnership opportunities and benefits available to current and potential corporate partners.

Timeframe over which leveraged funds are to be raised and spent

3.9 In a 12 October 2018 media release announcing the release of the Collaborative Investment Strategy, the foundation stated that it would:

create the nation's biggest environmental fundraising campaign to grow a \$443 million government contribution to the Reef by an additional \$300 million to \$400 million over the next six years.

3.10 Similarly, the strategy stated that:

The GBRF will amplify the impact of the investment by the Australian Government in the Reef through the continued application of a collaborative investment model, increasing RTP investment from \$443.3 million by \$300 million to \$400 million over the next six years.

3.11 The foundation's six monthly reporting to DAWE has identified that it budgets to spend \$465 million over the six year life of the partnership. This comprises the \$443 million Australian Government grant plus expected interest on the investment of the Australian Government grant. In this reporting, the foundation does not budget to spend the cash it has targeted to raise under the partnership (see Table 3.2). While the Australian Government grant funding is to be spent by 30 June 2024, in February 2021 the foundation advised the ANAO that it is not required to receive or spend the leveraged funds over the six year period of the partnership:

The foundation, as per the Collaborative Investment Strategy (CIS) and Head Agreement (Clause 8), seeks to leverage the Grant. The CIS aims to secure pledges up to the target by 30 June 2024 and outlines the key activities required to reach targets but there is no obligation to realise the entirety of the gift nor spend them by the end of the Agreement.

The nature of major gifts and corporate partnerships are such that these donors will commit over multiple years via pledge and contracts respectively over multiple years. The details and duration of each contribution is negotiated with the donors. Only at this stage in a donor gift agreement is the foundation in a position to forecast with certainty into a project budget.

The foundation will announce a gift's full value even if it is pledged across multiple years. This is a common approach for charities raising money and has been the approach of the foundation with its flagship projects.

22 The foundation advised the ANAO in February 2021 that 'these two streams did not warrant external peer review of feasibility documentation due to in house expertise and experience'.

Table 3.2: Foundation reporting of partnership budget, expenditure and commitments as at 31 December 2020

	Life-to-date RTP grant funding (\$m)			
	Full budget	Expenditure	Future commitments	Not yet committed
	A	B	E	G G = A - B - E
Component 1 — Administrative activities (grant funding)	22,505,000	18,458,204	1,263,475	2,783,320
Component 1 — Administrative activities (interest on grant)	21,795,000	—	—	—
Component 2 — Water quality activities	180,649,000	27,502,170	64,091,860	89,054,970
Component 3 — Crown-of-thorns starfish control activities	52,000,000	15,395,895	14,940,318	21,663,787
Component 4 — Reef restoration and adaptation science activities	90,000,000	1,831,394	1,192,403	86,976,203
Component 5 — Communities	10,000,000	1,924,179	1,039,579	7,036,243
Component 5 — Traditional owner ^a	52,149,000	1,854,351	287,836	50,006,813
Component 6 — Integrated monitoring and reporting activities	36,000,000	1,864,204	3,146,241	30,989,555
Total of all components	465,098,000	68,830,397	85,961,712	288,510,892

Note a: \$10 million Future Fund that is not yet contracted is included in the \$50 million 'Not Yet Committed'.

Source: ANAO reproduction of an extract taken from Appendix 3 of the six-monthly report for July to December 2020 submitted by the foundation to DAWE, as required by the RTP head agreement.

Use of other contributions for administration costs of the foundation

3.12 The grant agreement with the Australian Government requires that cash and in-kind contributions that are raised be allocated by the foundation to the non-administration components, and that this allocation be identified in the six-monthly progress reports the foundation is required to provide to the department. Those obligations will end when the term of the partnership grant agreement ends on 30 June 2024.

3.13 Advice from the foundation to the ANAO in February 2021²³ set out that the framework established by the grant agreement entered into with DAWE allows funds received after 30 June 2024 to be spent on the foundation's administration costs. In addition, the foundation advised the ANAO in February and April 2021 that:

The Agreement does not require the Foundation to have spent the cash raised through fundraising by the end of 2024. Furthermore, cash funding raised will have its own administration allocation in accordance with the Foundation's standard business practices and those of the charity sector as a whole, as guided by the Australian Charities and Not-for-profits Commission.

To ensure continuity in fundraising effort post 2024, the Foundation has embedded the four RTP fundraising streams into a 10-year campaign, Reef Recovery 2030, which seeks to raise \$1 billion for the Reef by 2030. This fundraising campaign has been endorsed as a flagship action in the United Nations Decade of Ocean Science.

For clarity, monies raised by fundraising will be tied to RTP projects by way of gift, grant agreements and contracts for donors, trusts and foundations and corporate partners, respectively. These agreements bind the Foundation to direct these funds in accordance with the donor's intentions.

Under the terms of the Head Agreement, during the RTP, the Foundation must direct monies raised by fundraising to Components 2-6, excluding Component 1 – Administration costs. Post 30 June 2024, the Foundation will revert to a standard charity operating model whereby income from funds raised and operations is applied to both administrative and direct project costs. As a sole cause charity, the Foundation will continue its mission of raising funds to support the long-term health of the Great Barrier Reef.

Government versus non-government sources of contributed funds

3.14 While the process by which the grant was awarded focused on the foundation's ability to raise funds from non-government sources, the target of raising \$200 million in contributed funds from research and delivery partners does not distinguish between non-government and government sources (including other Australian Government entities). In December 2020, DAWE advised the ANAO that:

The Department considers that the inclusion of in-kind and cash contributions from other Australian Government sources in the Foundation's reports was not unintended in the development of the grant agreement.

23 See also paragraphs 3.11 and 4.6.

The Department acknowledges that the Grant Agreement with the Great Barrier Reef Foundation refers to sources other than the Commonwealth, as you have quoted below.²⁴ However, in the design of the grant agreement, the Department did not act to preclude other sources of Australian Government funding from being leveraged by the Foundation and included in their reporting.

Reef Recovery 2030

3.15 In May 2020, a 'Capital Campaign overview' was provided to the foundation board. It proposed to 'present the capital campaign with an expanded scope, fundraising target and timeframe'. This involved embedding the four RTP fundraising streams into a new 10-year campaign called 'Reef Recovery 2030'. The suggested timeframe for the new campaign was from 2020 to 2030, and would promote raising \$1 billion for the reef over that period (funding sources specified in Table 3.3). The board endorsed this approach on 7 May 2020.

Table 3.3: Reef Recovery 2030 expansion on RTP funds and targets

Source of funds	Original RTP amounts	New 2030 target amounts
Australian Government Grant	\$443.5 million	\$443.5 million
Principal and Major Donors	\$100 million	\$200 million
Corporates	\$50 million	\$100 million
Individual Giving	\$7 million	\$17 million
Impact Investments/Environmental Markets	N/A	\$39.5 million
Contributed Funds	\$200 million	\$200 million
Total	\$800.5 million	\$1 billion

Source: ANAO analysis of foundation records.

What quantum of in-kind contributions has been secured to date?

As at December 2020, 70 delivery partners had identified that they would make in-kind contributions totalling \$53.1 million towards projects that, combined with others, were to receive Australian Government funding of \$134.3 million (a contribution rate of 39 cents for each dollar granted). In total, 30 per cent of the promised in-kind contributions were not included in the grant agreements and contracts signed by the foundation meaning funding recipients were not obligated to deliver their promised contribution. In addition, for the small number of projects that have been completed and acquitted, it has been common for partner contributions to be less than promised, with 23 per cent of the expected in-kind contributions not reported as having been provided by the partner, with inconsistent follow-up action being taken by the foundation in respect to the shortfalls in contributions.

24 In seeking the department's perspective, the ANAO had drawn attention to the grant agreement defining 'in-kind contributions' and 'cash contributions' as being from 'a person other than the Foundation or the Commonwealth'.

3.16 The foundation has a contractual obligation to seek cash and in-kind contributions for each RTP component.²⁵

3.17 The foundation did not consistently seek to clearly preference in its selection processes those candidates that would make a co-contribution (either cash or in-kind) towards their own projects. This was particularly the case for the larger programs where the main funding recipients have been the natural resource management groups. More specifically in relation to the eight grant program guidelines examined by the ANAO (which covered 71 per cent of the 126 grants and 50 per cent of the \$134.3 million grant funding contracted to 31 December 2020):

- the earliest three programs, with closing dates between December 2018 and March 2019 and total funding available of \$20.9 million, had included an assessment criterion focussed on the extent of any co-contributions, with this criterion weighted at 10 per cent (in each case, there were a total of six criteria);
- the next program (with a closing date in March 2019 and \$1.5 million in funding available) mentioned co-investment as an element of one of the five criteria (with this criterion weighted at 25 per cent);
- the next three programs (with closing dates between November 2019 and June 2020 and total funding available of \$64.9 million) did not include co-investment as a separate criterion or element of any of the criteria; and
- one of the four criteria for the most recent program (with a closing date in July 2020 and \$850,000 in total funding available) addressed co-investment ('project demonstrates value for investment and integrates other funding or co-investment opportunities, including quantifiable in-kind and volunteer support') with that criterion weighted at 20 per cent.

3.18 In February 2021, the foundation advised the ANAO²⁶ that the 'value for money' criterion covered both co-contributions and the cost effectiveness of projects competing for funding. The ANAO's analysis of the relevant program guidelines did not support this. For example, the guidelines for the \$10 million Innovation and System Change Water Quality Program that closed to applications in February 2020 did not identify that co-contributions were to be considered as part of the value for money criterion. Rather, the criterion was described as: 'Value for money, having regard to the total cost, the likelihood of the project being successful, and the potential benefit if the project is successful'.

25 With the exception of the administrative component, although this does not preclude the foundation from receiving in-kind or pro bono services for its administrative activities.

26 The advice from the foundation was: 'Following the completion of the early investment rounds GBRF recruited a new position to provide the required additional expertise to support GBRF's increasing granting requirements – Director of Delivery. This new position undertook a review of early investment grants to inform content for a new grant management guide to streamline and simplify processes. Through this review it was recognised that 'value for money' as a criteria sufficiently covers both co-contributions and the cost-effectiveness of the project itself, and importantly ensures that co-contributions (particularly in-kind which can be difficult to verify) are not overinflated in their importance in achieving the best outcome on the ground for the GBR.'

3.19 While the 'contributed funds' can include cash, to date it has only been achieved through in-kind contributions. In-kind contributions are non-cash contributions expressed as a dollar value. These can include pro-bono services, labour contributions, facilities, equipment and services provided by project partners to the project.

3.20 By December 2020, the foundation had entered into 126 grant agreements and 38 consultancy contracts for the delivery of project components.²⁷ As illustrated by Table 3.4:

- while the majority of partners had identified that they would make an in-kind contribution to the project (89 per cent of grant recipients and 14 per cent of consultants), the quantum of those contributions was considerably lower than the total amount of Australian Government funding being contributed (39 cents from partners for every Australian Government dollar). In addition, the contributions nominated by partners in their applications/submissions were rarely scrutinised by the foundation, for example:
 - a December 2019 contract with the Great Barrier Reef Marine Park Authority (GBRMPA) providing \$1.41 million of RTP funding for the Crown-of-Thorns-Starfish (COTS) Control Program included \$12.4 million of in-kind contributions. This amount was adjusted down (to \$211,350) following advice from DAWE in May 2020²⁸; and
 - an October 2020 contract with the University of Technology Sydney for \$496,945 for the 'Coral Nurture Program' included an in-kind contribution of \$5,806,996. At least 93 per cent (\$5,428,860) of this in-kind contribution related to third party staff and tourism vessel operating costs (across five separate tourism operators). Although the foundation had several discussions with the applicant, it did not seek any supporting documentation from the applicant or the third parties to test or confirm this value was accurate or achievable²⁹;
- initially the foundation was not including the promised partner contributions in grant agreements or contracts, which meant that 30 per cent of partners who had identified they would be making a contribution were not required by the relevant agreement or contract to provide this contribution. The foundation's updated practice since July 2020 is to now include a clause in the grant agreement template requiring funding recipients to provide the specified co-contributions in the schedule to the agreement or contract;

27 These consultancy contracts were recorded by the foundation against the non-administration components as being for the delivery of projects or project management services for the respective component. As at March 2021, the foundation expects five of these contracts to include in-kind contributions totalling \$249,184.

28 The May 2020 advice from DAWE was that the foundation was unable to count the majority of the \$12.4 million as contributed funds because 'this funding is already identified as being provided by the Australian Government'. In February 2021, the foundation advised the ANAO that: 'GBRF agreed that this figure should not have been used as the co-contribution amount and provided the Department with a revised in-kind amount which reflects the amount of the larger [Australian Government] funding portion which was being used to directly support the smaller RTP-funded activities.'

29 In April 2021, the foundation advised the ANAO that: 'The foundation has evidence that supports our verification of the valuation of co-contributions for the Coral Nurture project, but we accept this verification process has not been suitably documented. We are implementing a consistent documentation approach for co-contribution validation as part of our continuous business improvement.'

- twenty grants were due to be acquitted by the end of December 2020, and the foundation recorded that those partners were expected to contribute \$7.2 million to the project in addition to the \$10.8 million in grant funding they were to receive. Of those 20 grants, 18 have been acquitted with the acquittals accepted by the foundation including:
 - three grants where the acquittal included no partner contribution, compared with the \$239,600 the foundation recorded in its contract management system they should have contributed. In response to the audit findings, the foundation advised the ANAO in February 2021 that it would seek to follow-up as soon as possible with the grant recipients as to why they had not reported a contribution to the project in the final acquittals;
 - ten grants where the acquittal included contributions (totalling \$2.5 million) that were 46 per cent less than the \$4.6 million the foundation recorded in its contract management system that should have been provided. The follow-up action undertaken by the foundation was inconsistent across the delivery partners in respect to the shortfall in partner contributions; and
 - five grants where the acquittal included partner contributions (totalling \$2.2 million) that were greater than that recorded by the foundation as expected (\$1.3 million).

Table 3.4: Contributions from research and delivery partners as at December 2020

	Grants		Consultants	
	Number of	Value (\$m)	Number of	Value (\$m)
Agreements/contracts entered into by foundation	126	134.28	38	8.63
Contribution included by the partner in its application/proposal provided to foundation	112 (89%)	66.10 ^a (49%)	5 (14%)	0.25 (3%)
Contributions contracted by foundation	68 ^b (61%)	46.49 (70%)	2 (40%)	0.21 (84%)
Contributions recorded by foundation in its contract management system ^c	112	49.41	5	0.25
Contributions from Australian Government entities ^d	10 (9%)	7.28 (15%)	2 (40%)	0.23 (90%)
Projects completed and acquitted (expected contributions recorded in the contract management system in August 2020)	18	6.16	Nil	Nil
Contributions included in acquittals accepted by foundation	15 (83%)	4.76 (77%)	Nil	Nil

Note a: This includes \$12.4 million of in-kind contributions for the COTS Control Program that was later adjusted down to \$211,350 (detailed at paragraph 3.20).

Note b: This consists of 47 contracts executed from August 2020 where a new standard clause was included at 3.1 (e) of the grant agreement template requiring funding recipients to provide the co-contributions specified at Item 6 of Schedule 1. The other 21 were executed prior to this and do not contain an equivalent clause. While the application forms (including nominated co-contributions) were appended to the back of the executed funding agreements, there is not a contractual requirement for these to be provided. Further, the foundation has amended the value of these co-contributions for six of these in its contract management system after the respective execution dates.

Note c: Amounts the foundation expects to be contributed by funding recipients and subcontractors are manually entered into the foundation's contract management system (Integrum). During the course of the audit, the ANAO identified several entries where some of these figures: were not consistent with respective applications and contract documentation; could not be reconciled back to any formal documentation; or had been changed by the foundation after the initial entry and after the respective contract execution dates.

Note d: Specifically: Australian Institute of Marine Science; Commonwealth Scientific and Industrial Research Organisation; and the Great Barrier Reef Marine Park Authority.

Source: ANAO analysis of foundation records.

Recommendation no. 2

3.21 The Great Barrier Reef Foundation:

- include the extent to which funding candidates will provide a cash or in-kind contribution as a selection criterion for all project delivery grants and procurements; and
- follow up with partners where acquittals do not demonstrate that contracted contributions have been provided in full.

Great Barrier Reef Foundation response: *Agreed.*

What quantum of cash contributions has been secured to date?

The foundation has secured a total of \$684,100 in cash contributions. This comprises \$504,099 secured from individuals against the \$7 million individual giving target over the life of the partnership. One commitment of \$180,000 has been secured from a corporate donor, compared with a target from corporate donors of \$50 million by 30 June 2024, and no commitments have yet been secured against the June 2024 \$100 million target that is focused on philanthropists.

3.22 The largest cash component of the \$357 million fundraising target (see Table 3.1) is the \$100 million capital campaign that has a focus on philanthropy and individual giving tied to the Reef Restoration and Adaptation Program. In November 2020, the foundation advised the ANAO that:

- ‘recruitment for key staff commenced in August 2018 with an eventual resource of nine staff with staff allocated across corporate partnerships, capital campaign, individual giving and a dedicated supporter services team’; and
- it had moved into the implementation phase for its fundraising activities in accordance with the following planned timeframes:
 - donor acquisition and retention for the \$7 million individual giving component had commenced in the September 2019 quarter;
 - acquisition of contributions under the \$50 million corporate giving component had also commenced in the September 2019 quarter; and
 - the ‘quiet phase’ of \$100 million capital campaign, during which the foundation expected to raise 60 per cent of the target, commenced in the March 2020 quarter.

3.23 As at 31 December 2020 the foundation had not secured a financial contribution to the capital campaign. In April 2021, the foundation advised the ANAO that:

The Foundation is following standard best practice capital campaign methodology and is advised by external campaign consultants. Capital campaigns typically commence with a quiet phase, in which research is conducted to identify if the campaign targets and ambitions will feasibly attract philanthropic support, and research into who those supporters might be. A case for support is developed and tested with prospective donors. During the quiet phase it is typical for campaigns to raise 60 per cent of their gifts before a public phase is announced.

The Foundation has developed a pool of prospective donors with the capacity to provide financial support with an existing interest in funding ocean science initiatives. Modelling supports that the campaign goals are achievable and the Foundation reports to the Board on progress to campaign targets in dashboard reporting and provides regular updates to the Department in its progress reporting.

As has been identified to Board and the Department, the impacts of travel restrictions and global uncertainty has delayed the Foundation’s ability to meet and connect with donors which will impact timeframes.

3.24 February 2021 reporting to the foundation board in terms of the capital campaign identified that there was \$39.9 million³⁰ in planning from '400 fully qualified and ranked prospects'. This reporting further identified:

- no contributions had been submitted;
- no contributions has been committed either verbally or in writing; and
- \$30 million in potential commitments had been rejected by potential donors.

3.25 In addition to focussing heavily on United States of America (USA) prospects for its philanthropic donations, the foundation has also established mechanisms to encourage the receipt of US-based donations through individual giving mechanisms. As of October 2020, the foundation's US charitable entity, the Great Barrier Reef Foundation USA Inc. (GBRF USA) had received US\$69,440 into its bank account from USA citizens and small businesses. The foundation advised the ANAO in February 2021 that:

GBRF USA is structured in accordance with US requirements to be approved by the IRS as a tax-exempt charitable organisation. As such GBRF Australia will periodically apply for a grant of funds from GBRF USA Board of Directors. Once this application is approved these donations are transferred to GBRF Australia and will be recorded as gifts and counted towards RTP targets. In agreement with the GBRF USA Board, an application for funding will be submitted in early 2021 and then quarterly thereafter.

3.26 The corporate giving target is \$50 million. While October 2020 reporting to the foundation board against the corporate giving target identified that there was \$10.95 million in planning and \$31 million in submitted proposals (by the foundation to potential donors), as of February 2021 the only commitment that had been secured was \$180,000³¹ from an existing corporate donor to support research into chemical strategies to improve settlement and survival (part of the Enhanced Treatment and Aquaculture subprograms). In February 2021, the foundation advised the ANAO that:

Business profitability is a precondition to corporate support of charities but factors such as businesses indicating they wish to: improve employee engagement, strengthen social licence to operate and achieve social impacts are a better indicator of propensity to support, alongside an assessment of capacity to support.

Additionally, evidence from past economic downturns indicates that corporate investment in non-profits contracts sharply but recovers in line with market recovery. This is evidenced in the partnership negotiations that the foundation was engaged in that were paused at the height of the health crisis in Australia that have restarted as stock market and business confidence recovered towards the latter half of 2020. This has been reported in RTP progress report and to Board.

3.27 Through its individual giving stream, the foundation has recorded receiving a total of \$504,099 in cash contributions. It consists of cash donations from individual citizens from 1 July 2018 through mechanisms including workplace and regular giving; one-off donations and third

30 This amount relates to 19 prospects 'in advanced discussions with requests for detailed proposals in train or provided'. A further 40 prospects were identified as being in 'cultivation stage'.

31 Foundation records indicate that this amount was secured in December 2020, and was reported to the board in February 2021.

party website donations. The ANAO's analysis was that the foundation's six monthly report for the period ending 30 June 2020 overstated the amount raised (the foundation reported, on page 85, that it had raised \$1.098 million). The foundation advised the ANAO in February 2021 that:

- this was reported because it represented the total of co-contributions identified as cash by two funding recipients in their final acquittals; and
- one of these (with a value of \$897,971) should have been recorded as in-kind, whereas the other (with a value of \$200,000) was correctly identified as cash.

3.28 The latter cash contribution was identified by the funding recipient (Greening Australia) in its application by way of letter of support from the Queensland Department of Environment and Science.³² This contribution was not provided to the foundation, nor was it identified as cash in the foundation's contract management system. Rather, all co-contributions, including this \$200,000, have been recorded and reported as in-kind.

Is appropriate progress being made towards achievement of the targets?

As interim fundraising targets have not been set, it is difficult to assess whether appropriate progress is being made towards the fundraising targets. By 31 December 2020, \$5.5 million has been reported as raised through cash contributions and acquitted in-kind contributions from research and delivery partners against the overall target of \$357 million. In addition to the acquitted in-kind contributions, a further \$46.5 million of in-kind contributions has been contracted to be received.

3.29 One of the risks listed in the foundation's RTP risk management plan was the risk that it might not meet its fundraising targets. Among the mitigating controls identified (to address the consequence if the risk occurred) was to review and update the co-financing strategy.

3.30 By 31 December 2020, more than 40 per cent through the grant period, \$5.5 million (1.5 per cent of the target) has been reported as raised through cash contributions and acquitted in-kind contributions from research and delivery partners against the overall target of \$357 million. Between December 2019 and October 2020, the foundation board received updates on the delays experienced to date in implementing parts of the co-financing strategy, with specific attention drawn to:

- fundraising efforts being impacted in 2019, including an unquantified delay to corporate partnerships and a six month delay to the implementation of the capital campaign, due to funding uncertainty associated with the federal election and negative media commentary relating to the grant process; and

32 The 7 December 2018 letter confirmed that the department would provide a total of \$300,000 cash to Greening Australia towards the project.

- the COVID-19 pandemic in 2020, including anticipated delays to the capital campaign of 18 to 24 months.³³

3.31 The foundation reported to the department in its January to June 2020 six-monthly report that it expected to be in a position to review and update the co-financing strategy in September 2020. An update to the strategy did not occur in September 2020 with the foundation advising the ANAO in December 2020 that it has foreshadowed in its 2020–21 Operational Plan that it intends to lodge a refined co-financing strategy to the department by the end of the current financial year. The foundation advised the ANAO in February 2021 that it was ‘too early to do an effective update to [the co-financing strategy] due to ongoing uncertainty in [the] operating environment due to COVID-19’.

Internal reporting arrangements

3.32 Prior to February 2020, reporting to the board on fundraising performance did not include any traffic light or dashboard style reporting. Updates were via either ad-hoc papers or brief narratives provided within the foundation managing director’s report. While containing useful information, this reporting did not provide a good or consistent measure of progress against approved targets and timelines over time.

3.33 The ‘Collaborative Investment Strategy — Activity Report’ template adopted by the foundation in February 2020 was an improvement. It includes up to a page for each of the four fundraising streams, and contains information such as: total target value; actual value secured to date; actual amounts raised to date; 2019–20 KPIs and status against those KPIs; and corrective action/issues taken.

3.34 This report was provided to the board four times between February and October 2020. ANAO analysis was that, with the exception of the individual giving stream, the KPIs being reported against could be improved by including quantitative KPIs that indicate how much of the target value is expected to be achieved in the given financial year. The KPIs reported against were tasks or steps, sourced from either the:

- ‘deliverables’ that had been outlined in the co-financing strategy stage plans (capital campaign, contributed funds and corporate partnerships); or
- recommendations that had been provided through the capital campaign feasibility study.

3.35 In addition, some of the reporting has been inaccurate or conflicted with other records. For example:

- while some mandated documents were not delivered they were reported as complete or the reporting was silent with a range of other documents left in draft or not formally approved (see Table 3.5); and
- it was not clear when the one year planning phases for the fundraising streams commenced. Some evidence, including in representations provided to the ANAO by the

33 The most significant impact from the latter was the alignment of the timing of the pandemic with the commencement of the quiet phase of the capital campaign. This was because the capital campaign was ‘targeting US, UK and China gift markets, all of which were being deeply impacted by COVID-19’ and restrictions on global travel meant that staff could not physically meet with prospective donors and philanthropists.

foundation, suggest commencement was in October 2018. Other evidence suggested a range of commencement dates, from July 2018 to January 2019, with durations from six to 12 months.

3.36 The approval process for work plans or amendments to timeframes was also not clear. Amendments have been made at the working level without a corresponding committee or board approval evident. Aside from the co-financing strategy, none of the documents listed in Table 3.5 had been approved by the board, with various changes made over time at the operational and management levels.

Table 3.5: Fundraising stream annual work plans and multi-year strategies foreshadowed by the co-financing strategy plan

	Capital campaign	Individual giving	Corporate partnerships	Contributed funds
Co-financing strategy stage plans	30 September 2018			
External feasibility study	14 May 2019	26 July 2019	N/A	N/A
Multi-year strategy	7 May 2020 ^a	11 December 2018 ^b	9 January 2019 ^c	17 February 2020 ^d
2019–20 work plan	20 March 2019	N/A	N/A	N/A
2020–21 work plan	15 June 2020	8 June 2020	11 June 2020	N/A

Key: ■ indicates that the ANAO could not locate this document.

■ indicates that while this document was found, the ANAO could not identify when or which version was approved.

Note a: Reef Recovery 2030 Campaign Strategy: early drafts were produced in May and December 2019 and February 2020. The board endorsed the 10 year plan after it was presented with an overview on 7 May 2020.

Note b: Individual Giving 5 Year Strategy: the version control panel indicates that it was finalised on 11 December 2018, then updated on 19 June 2019; 10 October 2019; and 2 November 2020.

Note c: GBRF Development Team Strategic and Operational Plan 2018–2022: the content of this document was largely focussed on the 2019 year and did not contain details for the capital campaign and contributed funds streams. The ANAO identified alternative multi-year strategy documents with greater detail for the capital campaign and individual giving streams. Version dates included 9 January 2019; 11 October 2019; and 17 February 2020.

Note d: Corporate and Contributed Funds Acquisition Strategy: the latest version was dated 20 November 2020, and marked both 'draft' and 'Version 4: Current February 2020'. The earliest version located was 17 February 2020.

Source: ANAO analysis of foundation records.

3.37 The foundation has also not adopted a consistent approach to specifying interim targets and tracking progress, and there have been inconsistencies in reporting. For example, the co-financing strategy indicated that the foundation expected to secure 60 per cent of the campaign target (\$60 million) during the two year 'quiet phase' of its stage plan. May 2020 advice to the board indicates that the 'quiet phase' commenced in January 2020 and has been increased from two to three years whereas in February 2020 the foundation's external capital campaign adviser had indicated that at least \$10 million raised by the end of 2020 would have represented appropriate

progress.³⁴ Table 3.6 provides an overview of the measures and KPIs that were identified by the ANAO, and analysis of the foundation's progress against them.

Table 3.6: Progress against quantitative measures or KPIs

Stream	KPI or benchmark	KPI timeframe	Progress to date or within timeframe	Progress %	Source of KPI and/or progress information
Capital campaign	\$60 million	Implementation phase January 2020 to December 2021 (or 2022 ^a)	Nil	0%	Co-financing strategy (and May 2020 board papers ^a)
	\$10 million ^b	December 2020	Nil	0%	February 2020 update to capital campaign strategy
Individual giving	\$4.3 million	June 2024	\$438,159	10%	October reporting to the board
	20,000 donors		3,374 donors	17%	
	\$312,725	2020–21 financial year	\$51,955	17%	
	2,500 to 3,500 donors		1,114 donors	36 to 45%	
Corporate partnerships	\$50 million	By June 2024	Nil	Nil	Co-financing strategy
Contributed funds	\$200 million	By June 2024	\$44.4 million	22%	

Note a: In contrast to the published co-financing strategy, May 2020 reporting to the board indicated that the implementation phase (or 'quiet phase') of the capital campaign had been increased from two to three years.

Note b: In February 2020 the foundation's external capital campaign adviser indicated that at least \$10 million raised by the end of 2020 would have represented appropriate progress.

Source: ANAO analysis of foundation records.

34 This advice was provided by way of update to the May 2019 capital campaign plan, as requested by the foundation in January 2020.

Recommendation no. 3

3.38 In consultation with the Department of Agriculture, Water and the Environment, the Great Barrier Reef Foundation develop, agree and report against interim fundraising targets for each stream of the approved co-investment strategy so as to provide a better indication of how much of the fundraising target will be received by the end of the Reef Trust Partnership on 30 June 2024.

Great Barrier Reef Foundation response: *Agreed.*

3.39 *The Foundation has notified the Department of the submission of an updated Collaborative Investment Strategy before 30 June 2021.*

Department of Agriculture, Water and the Environment response: *Agreed.*

3.40 *In consultation with the Great Barrier Reef Foundation, the department will assist in developing interim fundraising targets based on the expected trajectory of each of the Great Barrier Reef Foundation's fundraising streams for the Reef Trust Partnership. Updates against those targets will be requested through established six-monthly progress reports and annual reports to the department. The department will consider external factors influencing those trajectories that are outside the control of the Great Barrier Reef Foundation, including the ongoing global economic impact of COVID-19.*

4. Project delivery

Areas examined

The ANAO examined whether an appropriate approach has been taken to the delivery of the Reef Trust Partnership (RTP or the partnership).

Conclusion

The Great Barrier Reef Foundation's use of grants and procurements is an appropriate approach to delivering the partnership. While competitive selection processes have been employed most of the time when awarding grant funding, there has been insufficient use of open and competitive approaches for procurements. For grants awarded through non-competitive processes and for the majority of procurements (both competitive and non-competitive), it has been common for selection criteria to not be specified. In addition, written contracts have not always been put in place by the foundation.

Areas for improvement

The ANAO has made three recommendations aimed at:

- significantly increasing the extent to which the foundation employs competitive procurement processes;
- the adoption and application of clear selection criteria including when non-competitive processes are employed; and
- making sure written contracts are in place.

4.1 The head agreement with the Australian Government requires that the Great Barrier Reef Foundation (the foundation) undertake a range of administrative activities to ensure good governance is in place. This includes the establishment of systems and processes, effective project management and scaling up activities. The agreement permits the foundation to spend up to \$44.33 million on administration activities.

4.2 The foundation advised the ANAO in April 2021 that its 'business model includes both subcontracting to third parties and direct management and delivery of our signature projects, such as the Resilient Reefs Initiative, to achieve the organisation's purpose.' The grant agreement with the Australian Government refers to the foundation engaging partners through grants and procurements as 'subcontracting'. The grant agreement provides the framework under which the foundation is able to undertake procurements and make grants to its subcontractors. The ANAO examined the foundations approach to engaging subcontractors to deliver the partnership.

Have appropriate delivery methods been selected for the achievement of partnership components?

The major delivery methods used by the foundation, being subcontracting through grants and procurement, are appropriate. Subcontracting is provided for in the head agreement between the foundation and the Australian Government. That agreement requires the foundation to generally apply the principles of open, transparent and effective competition, value for money and fair dealing and to use rigorous and robust assessment criteria.

4.3 The foundation, along with contracted research and delivery partners, is to spend at least \$822 million (see Table 4.1) to achieve significant, measurable improvement in the health of the Great Barrier Reef World Heritage Area. Five components of the RTP (see Table 1.1 on page 16) directly relate to activities to improve the health of the Great Barrier Reef. Those components are to comprise the majority (93 per cent³⁵) of spending of the Australian Government grant funding. The component activities largely relate to work that was previously administered or under development by Australian Government entities. By way of example:

- from 2012 and until the commencement of the RTP, the Great Barrier Reef Marine Park Authority (GBRMPA) had received a total of \$44.9 million³⁶ from the Australian Government for its administration of the Crown-of-Thorns-Starfish (COTS) Control Program.³⁷ The 2019–20 Annual Work Plan foreshadowed RTP funding and a direct negotiation with GBRMPA for its continued delivery of the program. In May 2020 the foundation entered into two separate contracts³⁸ totalling \$28.6 million for in-water COTS control, representing just under half of the \$57.8 million available for the COTS Component; and
- the Reef Restoration and Adaptation Program was in early development prior to the commencement of the RTP. In 2018, the Australian Government provided \$6 million for its concept feasibility phase, led by the Australian Institute of Marine Science, for a ‘10-year program to develop new technologies to assist reef recovery and adaptation’.

4.4 As discussed at paragraph 3.11, the foundation advised the ANAO in February 2021 that it is not contractually required to raise or spend the cash identified in its fundraising targets by 30 June 2024 (the end of the Reef Trust Partnership).

35 None of the cash and in-kind contributions raised through the fundraising activities are permitted to be allocated to administration activities (which are capped at 10 per cent of the grant amount, that is, \$44.3 million).

36 Of which \$13 million was from previous funding rounds of the Reef Trust (specifically, Reef Trust phases II and IV).

37 GBRMPA had in place standing deeds of offer (the most recent from July 2018 to September 2020) with suppliers selected through an open tender process for the delivery of in-water COTS control activities.

38 One contract was with GBRMPA for \$13.5 million and the other was \$15.1 million with the Reef and Rainforest Research Centre (one of four entities that had standing deeds of offer with GBRMPA for the delivery of COTS control services at the time).

Table 4.1: Summary of partnership funding and contracted costs: as reported by the foundation to 31 December 2020

	Cash		In-kind
	Amount to spend (\$m)	Amount spent or contracted to be spent (\$m)	Contributed funds from partners (\$m)
Partnership component			
Administration	44.3 ^a	19.7	Nil
Water Quality	200.7	91.6	36.0
Crown of Thorns Starfish control	57.8	30.3	1.9
Reef Restoration & Adaptation Science	100.0	3.0	1.8
Indigenous & Community Reef Protection	22.3	5.1	9.5
Integrated Monitoring and Reporting	40.0	5.0	3.8
Sub-total	465.1	154.8	52.9
Outstanding fundraising targets ^b	156.3	Nil	147.1
Total	621.4	154.8	200.0

Note a: Comprises direct grant of \$22.505 million plus \$21.825 million in interest earned on the Australian Government grant funding. The grant agreement requires that any interest on the Australian Government grant funding in excess of \$21.825 million be expended on the non-administration components.

Note b: See paragraph 4.6.

Source: ANAO analysis of foundation records.

4.5 As at 31 December 2020, the foundation has reported \$154.8 million as spent or committed (25 per cent of the six year total); and contracting with research and delivery partners to contribute a further \$52.9 million (26 per cent of the six year total). The majority of the expenditure made or contracted to 31 December 2020 relates to the water quality and Crown-of-Thorns-Starfish (COTS) control components of the RTP (see paragraph 4.3).

4.6 The head agreement with the Australian Government requires the foundation to use the cash it raises through its co-investment strategy (discussed in Chapter 3) to undertake projects under the non-administration components of the partnership. This allocation is required to be identified in the six-monthly progress reports the foundation is required to provide to the Department of Agriculture, Water and the Environment (DAWE or the department). In February 2021, the foundation advised the ANAO that:

There is no express provision in the Grant Agreement requiring Other Contributions to be committed and spent within the same timeframe as the Grant or to be included in the budget unless Other Contributions fall within the definitions of Component or Activity, which they do not.³⁹

³⁹ See also paragraphs 3.11 and 3.13.

Subcontracting

4.7 The head agreement between the Australian Government and the foundation regulates the manner in which the foundation is to engage subcontractors through grants or procurements, as follows:

The foundation agrees to generally award each Subcontract for the Activity in accordance with principles of open, transparent and effective competition, value for money and fair dealing. The Foundation agrees to select Subcontractors using rigorous and robust assessment criteria and after having conducted all reasonable due diligence on the entity selected for a Subcontract. Where the Foundation elects to engage Subcontractors other than as a result of an open, competitive process, it will provide the Department with notice of the reasons and justifications for the approach taken by the Foundation.

4.8 While the foundation has undertaken at least 171 procurements, the majority of the amount spent and contracted as at 31 December 2020 has occurred through grants. By 31 December 2020, the foundation had entered into 126 grant agreements with 73 entities (some entities have received more than one grant) with an aggregate value of \$134.3 million.

4.9 The average value of grant agreements entered into has been just over \$1 million. The smallest grant was \$11,694 awarded to Reef Catchments (Mackay Whitsunday Isaac) Limited for a project to educate smokers about cigarette butt litter and use community-based social marketing to change behaviours. The two largest grants relate to the COTS control program with \$15.1 million awarded to the Great Barrier Reef Marine Park Authority (GBRMPA) and \$13.5 million to Reef and Rainforest Research Centre Ltd (RRRC).⁴⁰

4.10 The contracted grants related to five of the six component areas of the RTP (no contracted grants related to the administration component). The majority of contracted grant funding (70 per cent or \$93.4 million) relates to the second component (Water Quality) followed by the COTS component (22 per cent or \$30.0 million). Although the second largest component of the total Australian Government grant amount with \$100 million in allocated funding, only a small amount of grant funding had been contracted to December 2020 under the Reef Restoration and Adaptation Science component (three grants totalling \$2.3 million).

4.11 The foundation's controls over the approval of grant funding has not consistently ensured that grant funding was approved prior to project proponents being advised. The ANAO's analysis of the approvals process for 37 grants⁴¹ with a total value of \$41.7 million (from processes conducted under the Water Quality; and Indigenous and Community Reef Protection components) identified:

- 19 instances (worth \$2.97 million) where there was a clear record of approval having been given prior notifications being sent; and
- 18 instances (worth \$38.7 million) where applicants were advised that they were successful before the assessment panel's recommendations had been approved within the

40 The grant agreement sets out that, from 1 July 2020, the COTS control program would be delivered as a strategic partnership between the foundation, GBRMPA and RRRC.

41 Approvals examined by the ANAO related to grant agreements executed under five separate programs, including two 'Early Investment' rounds conducted in 2018–19 under the Water Quality and Community Reef Protection Components; the Mackay-Whitsunday and Fitzroy Regional Water Quality Programs; and the Water Quality Innovation Program.

foundation. The average delay between applicant notification and Board/delegate approval was 24 days.

4.12 The foundation advised the ANAO in April 2021 that it ‘has improved workflow design including fail-safes within our grant management system to ensure that approvals are in place prior to notification of successful applications to grantees.’

Have open and competitive processes been used?

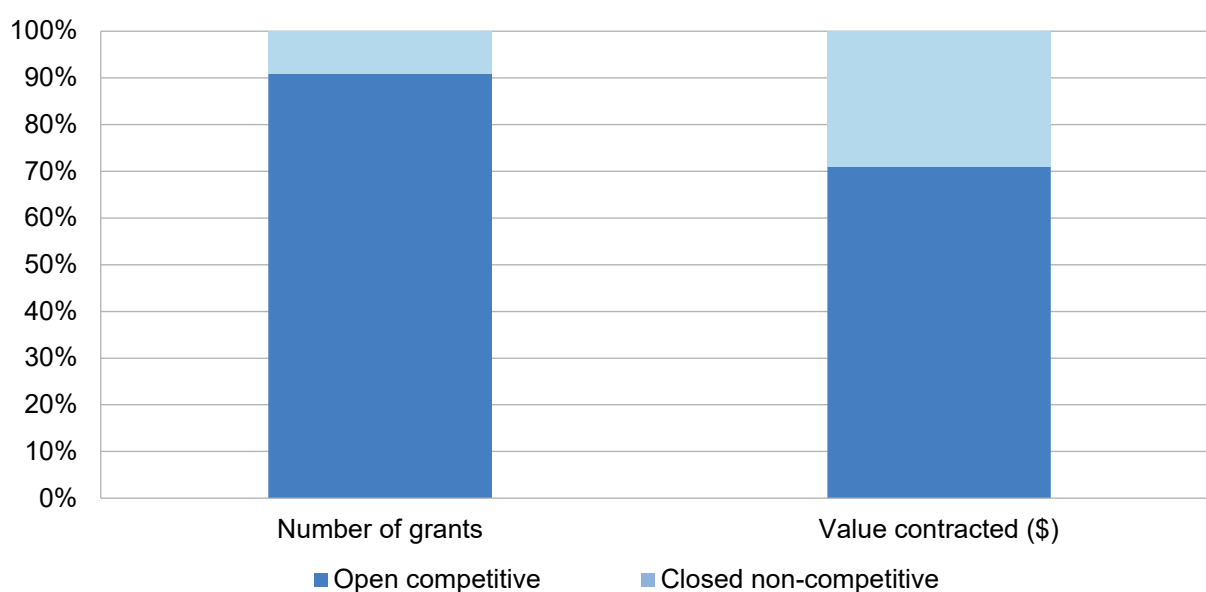
The majority of grants awarded and grant funding has involved competitive processes. There has been insufficient use of open and competitive processes when undertaking procurements. Despite the foundation’s procurement policy advocating the use of competitive processes, in practice the most common procurement approach employed has been to sole source providers, with 71 per cent of the 171 procurements analysed by the ANAO having no competition and the foundation often exempting itself from employing a competitive approach. The foundation has undertaken seven open tender processes for its higher value procurements, notwithstanding the expectation outlined in its policy for open tenders for all procurements with a value above \$250,001 (of which there have been 14).

Award of grant funding

4.13 The majority of the foundation’s expenditure of the Australian Government grant to date has occurred through the award of grant funding. In terms of the approach taken:

- the majority (91 per cent) of grants contracted were the result of a competitive process with the value of grants awarded through such processes representing 71 per cent of total grant funding contracted by 31 December 2020; and
- nine per cent of grants contracted, involving 29 per cent of funding, resulted from closed non-competitive processes.

Figure 4.1: Processes used to award grant funding



Source: ANAO analysis of foundation data.

Procurements

4.14 The first version of the foundation's procurement policy was approved by its board on 28 September 2018, three months after the grant agreement with the Australian Government was signed. The policy has been updated twice, on 15 August 2019 and most recently on 7 May 2020.

4.15 Each version of the policy required the foundation to apply four procurement principles 'to deliver benefits for the foundation, stakeholders and community':

- value for money;
- advancement of economic, environmental and social benefits for local reef communities;
- open and effective competition; and
- efficient and ethical procurement.

4.16 These principles are consistent with the head agreement between the Australian Government and the foundation (see paragraph 4.7).

4.17 There is a strong link between the principles of value for money and competitive procurement processes. As discussed in Auditor-General Report No.27 2019–20⁴², the more competitive the procurement process, the better placed an entity is to demonstrate that it has achieved value for money. This is because competition:

- encourages respondents to submit more efficient, effective and economical proposals; and
- ensures that the purchasing entity has access to comparative services and rates, placing it in an informed position when evaluating the responses.

4.18 With the objective of streamlining foundation administration processes whilst ensuring value for money is maintained when undertaking procurement activities, each version of the foundation's procurement policy included procurement thresholds to identify the type of procurement process to be employed (see Table 4.2). Less competition is required by the policy for procurements of between \$80,000 and \$250,000 than the thresholds adopted by most Commonwealth entities.⁴³ In April 2021, the foundation advised the ANAO that 'the foundation's Procurement Policy and thresholds were modelled on the Queensland Government's Procurement Policy and procurement thresholds'.

42 Auditor-General Report No.27 2019–20, *Australian Government Procurement Contract Reporting Update*.

43 In comparison to the foundation's \$250,000 threshold for a request for offer/tender approach, most Commonwealth entities subject to the Commonwealth Procurement Rules are required to employ an open approach to the market for non-construction service procurements with a value at or above \$80,000.

Table 4.2: Procurement process thresholds

Threshold	September 2018 version	August 2019 version	May 2020 version
Up to \$5,000	One verbal quote	No change	No change
\$5,001 to \$25,000	Two written quotes	One written quote	No change
\$25,001 to \$50,000		Two written quotes	No change
\$50,001 to \$100,000	Three written quotes/request for quote		
\$100,001 to \$250,000		No change	No change
Over \$250,001	Request for offer/tender	No change	No change

Source: ANAO analysis of foundation records.

4.19 Each version of the policy also provided the capacity for exemptions to the application of the procurement thresholds⁴⁴ and any other aspect of the policy, as follows:

Where full compliance with this policy is not feasible, a written request for a Procurement Process Exemption must be made to the Managing Director. Any request for exemption must adequately demonstrate the business need for the exemption and be based on appropriate reasons included but not limited to genuine urgency, criticality, sole supplier and security/confidentiality, or funder compliance requirements.

4.20 The most common procurement approach employed by the foundation has been to sole source providers, with 71 per cent of the 171 procurements analysed by the ANAO having no competition. In February 2021, the foundation advised the ANAO that:

The approved procurement policy does not require a competitive process for contracts valued at less than \$25,001. Of those instances where exemptions were granted the largest category of sole source suppliers by volume and value (89 per cent of value) related to contracts where the service provider is the sole organisation capable of providing the services required.⁴⁵ The second largest category of sole sourced service provision relates to scaling up activities early in the RTP contract.⁴⁶

4.21 In total, 49 per cent of the sole sourced procurements had previously been contracted by the foundation, with 24 per cent having a personal or professional acquaintance of a foundation

44 The foundation's procedures provide that the exemption is sought after there has already been engagement with a single supplier and an offer negotiated. While the procedures require some documentation about the rationale for an exemption, they are silent on whether evaluation criteria need to be specified and an evaluation report prepared (see further at paragraphs 4.38 to 4.41). In April 2021, the foundation advised the ANAO that it: 'has strengthened procurement assessment both within the Procurement Policy and corresponding procedure to ensure that consistent analysis and documentation of assessment is made against a standard set of criteria as a minimum. The purpose of this improvement is to support a delegate's decision-making in relation to approval of procurement recommendations and exemptions.'

45 The ANAO's analysis of the foundation's records did not evidence that the foundation has consistent practices in place to seek to establish whether the contracted service provider was the sole organisation capable of providing the required services.

46 The head agreement does not provide that the foundation is not required to seek to employ open, transparent and effective competition when subcontracting for scaling up activities. The head agreement provided that scaling up activities would take until 30 June 2019 (that is, some twelve months).

staff member and 9 per cent being awarded to corporate partners of the foundation. In February 2021, the foundation advised the ANAO that:

Effective delivery of the RTP is based on maintaining a broad and diverse set of professional industry and stakeholder relationships to ensure that the Foundation industry knowledge remains current and to help identify capabilities and opportunities to improve the way things are done for the benefit of the Great Barrier Reef.

4.22 The scope of this ANAO performance audit did not include the management of probity by the foundation, including in relation to how any conflicts of interest were identified and managed in undertaking procurement activities.

4.23 The high proportion of sole sourced procurements reflects that it has been common for the foundation to employ less competitive processes than those indicated by its procurement process thresholds. Of the 171 procurements analysed by the ANAO:

- 57 (33 per cent) were consistent with the approach set out in Table 4.2;
- 10 (six per cent) employed more competition than was required under the procurement policy applicable at the time. The value of those procurements ranged from \$5,104 to \$174,000 (with an average of \$42,805). In each case, the foundation obtained at least one more quotation than was specified in the procurement policy; and
- 104 (61 per cent) employed less competition than was required under the applicable procurement policy.

4.24 As of December 2020, seven open procurement processes have been conducted for the establishment of expert and technical advisory panels and the selection of consultants for the Regional Water Quality Program. Contracts executed to date are:

- three contracts totalling \$4.9 million from three of the seven processes conducted for the Regional Water Quality Program (for program manager and/or partnership coordinator roles to oversee and coordinate the delivery of projects in three Great Barrier Reef catchment regions.⁴⁷ See Appendix 2, paragraphs 2 to 4); and
- three with values of less than \$20,000 for expert and technical advisory panel members.

4.25 Each version of the procurement policy has required a fully open and competitive approach for procurements with a value over \$250,001. To date, there have been 14 procurements with a value above that threshold with an aggregate value of \$9.9 million (with averages of \$705,529). Of those 14 procurements, three were the result of open processes and four have a recorded exemption to the procurement policy requirement that an open request for tender or offer be conducted. While exemptions to the requirement for an open tender were not recorded in the foundation's register for the other seven procurements with a value above \$250,001, five were reported to DAWE as not being engaged via competitive processes for reasons including:

- that 'the procurement leverages arrangements the foundation already has in place with the supplier' for services from a pro bono partner totalling \$579,304; and
- a 'critical business need for the foundation to meet a deadline not reasonably foreseen' in respect of four procurements with a total value of \$1.7 million for three key senior

⁴⁷ Mackay-Whitsunday; Fitzroy; and Lower Burdekin.

foundation staff positions and the development of a strategic communications plan by a firm recommended by DAWE in May 2018 (see paragraph 4.27).

4.26 Four of those 14 high value procurements involved competitive processes (of which three were open processes and one involved limited competition). Three were consultancies for the program manager and/or partnership coordinator roles under the Regional Water Quality Program (see paragraph 4.24). The other was conducted via a limited tender after it was initially proposed to sole source Alluvium Consulting Australia Pty Ltd for an investment pathways consultancy within the Water Quality component.⁴⁸ Following a Partnership Management Committee⁴⁹ meeting, the foundation undertook a select tender process with four parties invited to quote, and three offers received. The offer from Alluvium was assessed as the best value for money, noting that it offered a fee four per cent less than at the time of the initially proposed sole sourcing and that, compared to the other respondents, it had the advantage of early interaction and engagement with key foundation staff and had also received feedback on draft proposals during the sole sourcing negotiations.⁵⁰

4.27 The remaining 10 procurements with a value above the \$250,001 threshold were undertaken through sole source procurement processes. This included the engagement of:

- 89 Degrees East Pty Ltd at an estimated cost of \$269,471⁵¹ to develop a strategic communications plan. This firm was identified to the foundation by the department in May 2018.⁵² There was no documented consideration of the market for providers of these types of services, or any recorded analysis that demonstrated that the rates being charged (which range from \$1,200 per day to \$3,000 per day) represent value for money. Foundation records state that a procurement process exemption was approved on 16 January 2019;
- HeadStart Development Pty Ltd under two consecutive contracts totalling \$800,800 to fill the role of RTP Program Director⁵³:

48 The recorded rationale for a sole source approach was that Alluvium was 'uniquely placed'; 'it would be more expensive for another consulting firm to undertake the work, given that this would require the firm to duplicate work already completed in the previous study'; and 'time constraints preclude a competitive process'.

49 The Partnership Management Committee forms part of the RTP governance arrangements. It is co-chaired by two foundation directors and its membership includes representatives from both DAWE and GBRMPA.

50 This consultant has been awarded two other contracts by the foundation in May and June 2020, with values of \$151,460 and \$18,280 respectively. Both contracts were sole sourced, although the procurement policy required the foundation to have obtained three quotes for the May 2020 contract which was for investigation of greenhouse gas emission abatement and carbon sequestration for RTP actions.

51 This was the value recorded in the foundation's exemption register in January 2019. There was no recorded estimate of the cost of the contract at the time the procurement decision was taken.

52 The contracted commencement date is 1 June 2018. The head agreement with the Australian Government states that the foundation cannot use any part of the grant for costs incurred before the partnership commenced on 27 June 2018, and the invoices associated with this contract have been allocated by the foundation against Component 1 (Administration) of the partnership grant since 17 July 2018. The \$41,656 paid prior to this was not allocated against the partnership.

53 The scope of work was drafted by the consultant and agreed to by the foundation.

- the first contract was signed on 26 September 2018 to run from 1 July 2018 to 30 June 2019 with a rate of \$1,400 for three to four days per week on average, with no benchmarking or other analysis of value for money of this rate. A procurement process exemption was not recorded for this contract; and
- in January 2020 the foundation identified that the contract had expired. A procurement process exemption was not recorded for the new contract that was signed on 9 March 2020 to run from 1 January 2020 to 31 December 2020 (which had a scope of work adjusted to reflect items already completed and had the same daily rate but with an increased expectation of four to five days on average each week); and
- Clear Horizon Consulting Pty Ltd for which a contract was signed on 13 March 2020 with a capped fee⁵⁴ of \$345,000 for the period 1 January 2020 to 30 June 2021⁵⁵ to provide monitoring and evaluation services to support the delivery of the RTP⁵⁶ and ‘other internal organisational priorities’. This was the fourth contract the foundation has entered into with this consultant (with one variation extending the scope and spend under a contract). The total value of these contracts is \$575,311. Only the first contract awarded (for \$28,050) involved any competition, with the foundation seeking two quotations as was required under the procurement policy that applied at the time. Exemptions were recorded for the later three contracts, with the competitiveness of the consultant for the first contract identified as part of the reason for granting an exemption. The foundation worked with the consultant after the initial contract to develop the work program for later contracts and procurement policy exemptions were sought when proposals had been developed and, in the case of the most recent contract, billable work had been performed.

Recommendation no. 4

4.28 To ensure compliance with the Reef Trust Partnership agreement, the Great Barrier Reef Foundation increase the extent to which it uses open and competitive selection processes to undertake procurements.

Great Barrier Reef Foundation response: *Agreed.*

4.29 *The Foundation has in place an appropriate Procurement Policy that allows for open and competitive processes. We will continue to work to identify opportunities for improvement with our internal audit provider and the Reef Trust Partnership contract manager.*

54 In addition to fees, the contract permits the consultant to charge for travel disbursements related to workshop facilitation.

55 The plan prepared by the consultant that was appended to the contract comprised a ‘detailed plan’ for the first 18 months covered by the contract and a ‘high level plan’ for the remaining three years of the RTP out to 30 June 2024.

56 Under the head agreement with the Australian Government, the foundation was required to develop a monitoring and evaluation plan. Stage 1 of this plan was due by 30 November 2018.

Have appropriate criteria been adopted and applied to the evaluation of candidates?

The foundation has not consistently adopted and applied appropriate selection criteria. While appropriate criteria have been developed and applied when awarding grants through competitive processes (more than 90 per cent of grants contracted) this has not been consistently the case with grants awarded through non-competitive processes. Only 22 per cent of procurement processes had clearly identified criteria.

4.30 The head agreement between the Australian Government and the foundation requires that the foundation select subcontractors using 'rigorous and robust assessment criteria'. This obligation applies equally to competitive and non-competitive selection processes.

Award of grant funding through competitive processes

4.31 The ANAO examined the criteria adopted for eight open grant selection processes. The relevant guidelines set out that, through the eight funding rounds, total grant funding of \$88.1 million was available. Those eight rounds covered 90 grant agreements valued at \$67.0 million (71 per cent of the number of grants and 50 per cent of the value of grants) the foundation had entered into by 31 December 2020 (see paragraph 4.13 and Figure 4.1).

4.32 Each of the eight guidelines examined included appropriate selection criteria that addressed:

- eligibility considerations including the types of entities eligible to apply and what the grant funding can and cannot be used for; and
- comparative assessment of the merits of competing applicants through the application of weighted assessment criteria.

4.33 The guidelines also identified the relevant component of the RTP and the related Australian Government funding, and outlined the relationship between the objective of the relevant component and the grant funding opportunity. The linkages between the objective and the selection criteria were also set out in the guidelines. A common shortcoming was that the guidelines did not give sufficient emphasis to the foundation using the Australian Government funding to leverage contributions from research and delivery partners:

- none of the guidelines set out that, in addition to the funding provided by the Australian Government, the foundation had a target of raising \$200 million from research and delivery partners across the five non-administration components; and
- the more recent guidelines did not include a co-funding assessment criterion (discussed at paragraph 3.17).

Grant funding awarded through non-competitive processes

4.34 A range of practices were evident in relation to the 29 per cent of contracted grant funding that has been awarded through non-competitive processes (see paragraph 4.13).

4.35 In October 2018, a process for making decisions on 'early projects' was approved. The foundation recorded that 'In terms of reputation, the risk of being perceived as making a 'captain's

call' can be mitigated by putting in place robust and transparent processes for the selection of projects and delivery providers, supported by clear and defensible criteria.' Eight 'overarching' criteria⁵⁷ were developed that could be tailored as appropriate for projects under specific components of the RTP. These criteria were applied in the award of a \$574,000 grant in December 2018 for a project to undertake surveys in the Northern Reef ahead of a potential 2019 bleaching event.

4.36 A variety of approaches were employed in grants subsequently awarded through non-competitive processes. For example:

- the December 2019 assessment of a proposal under the Water Quality component to extend an additional grant focussed on agricultural practice change in the cane and grazing sectors through the award of a further \$2.43 million set out the reasons for extending in five dot points but there were no actual assessment criteria identified and applied;
- the April 2020 assessment that led to the award of two grants under the Integrated Monitoring and Reporting component totalling \$3.0 million summarised the rationale and benefits for awarding the funding but there were no actual assessment criteria identified and applied; and
- the July 2020 assessment of a \$650,000 proposal under the Integrated Monitoring and Reporting component to collect Reef condition data used eight non-weighted criteria that were similar to the early investment criteria adopted in October 2018.

Procurement processes

4.37 Of the 171 procurement selection processes analysed by the ANAO, there were 38 (22 per cent) where selection criteria were identified. Criteria were not identified for the majority (78 per cent) of procurements.

4.38 For 20 of the 38 procurements with criteria identified, the candidates were informed of the criteria that were being used (all but one were competitive procurements with eight selected through public calls for submissions and between three and 11 candidates invited to quote for the remainder). This was not done for the other 18 procurements where criteria had been identified.

4.39 While the foundation's procurement policy (see paragraph 4.15 and Table 4.2) promotes open and competitive selection processes consistent with the head agreement with the Australian Government (see paragraph 4.7), the most common procurement approach employed by the foundation has been to sole source providers (see paragraph 4.20). There was only one sole source procurement where the foundation identified criteria that would be used to evaluate whether the proposal would represent value for money. This approach is not consistent with the principles outlined by the foundation in its procurement policy, or with the head agreement with the Australian Government.

57 The criteria were: investment is consistent with Reef Trust Partnership Grant Agreement; investment contributes to areas anticipated to form a critical part of the Investment Strategy; investment maintains or builds capacity and capability in critical areas; justification for investment and anticipated value is based on robust evidence; investment is time critical and minimises opportunity loss; investment creates, maintains and expands key partnerships and collaborations; investment will generate measurable outcomes; and investment is leveraged. The criteria were not weighted.

4.40 An evaluation report was prepared for 35 (20 per cent) of the 171 procurement selection processes analysed to date by the ANAO. While the foundation has an evaluation report template to employ for procurements valued above \$25,001, it was used for only 15 of 95 procurements (16 per cent) analysed with a contract value above that threshold.

Recommendation no. 5

4.41 The Great Barrier Reef Foundation:

- specify clear selection criteria for all granting opportunities and procurement processes, including those that do not involve a competitive selection process; and
- record an assessment against those criteria in advance of taking any decisions to commit to spending Reef Trust Partnership funding.

Great Barrier Reef Foundation response: *Agreed.*

Are appropriate contractual arrangements in place?

Written contracts have not been put in place for all expenditure that has occurred under the partnership. It has been common for appropriate contractual arrangements to be in place for project delivery arrangements, which has been largely undertaken through grant agreements. The absence of written contracts largely involved procurements relating to the administration of the partnership.

4.42 The head agreement requires the foundation to enter into a subcontract with each subcontractor. Subcontractors are any entities or persons engaged to undertake any part of the partnership on the foundation's behalf. They include both grant recipients and suppliers of goods or services.

4.43 The terms of each subcontract must be consistent with and give effect to the foundation's obligations and contain all of the applicable provisions required by the head agreement. These provisions include, amongst other things:

- rights to terminate the subcontract for convenience and/or default;
- providing the information the foundation needs to comply with its own reporting and other requirements; and
- requiring the subcontractor to have specified insurances in place.

4.44 Additional provisions are specified for subcontracts with grant recipients, including: capping the amount that can be spent on administration (to 10 per cent of the grant amount); and ensuring that the foundation has a contractual right to recover any grant funding that is overpaid, incorrectly spent, or not required by a delivery partner.

4.45 Standard templates were developed during the first eight months of the partnership to ensure the inclusion of these provisions in all applicable contracts. The procurement policy has

required the use of these standard templates for all contracting and procurement activities since September 2018.⁵⁸

4.46 The foundation has consistently used its standard grant template for the 126 grant agreements (with an aggregate value of \$134.3 million) executed to December 2020. Of the 171 contractual procurements examined by the ANAO, there were 95 engagements where the foundation's standard contracts were used (for a total of \$13.6 million) and 76 (with a total value of \$3.6 million) where suppliers were engaged using letters of engagement or other alternative contractual arrangements. These included:

- 10 engagements for services under the non-administration components for a total of \$142,192, including:
 - \$10,500 on 12 May 2020 (with actual expenditure totalling \$14,872) to provide online training to community reef protection grant recipients for digital storytelling;
- 24 for marketing and fundraising related services for a total of \$980,076, including:
 - \$284,463 of actual expenditure associated with one engagement for the development of a strategic communications plan by 89 Degrees East (see paragraph 4.27);
 - two engagements with Interbrand Australia for brand strategy development services (\$164,525 in November 2018) and the development of a brand video (\$6,900 in May 2019). Although the foundation's contract manager expressed concern in November 2018 that terms were 'skewed to favour the consultant', the services were engaged via the supplier's standard terms. These terms were also inconsistent with the 20 business day timeframe for the repayment of grant funds within the head agreement⁵⁹; and
 - \$163,278 for four engagements with Pareto Fundraising for consultancy services associated with individual giving campaigns; and
- 42 for corporate services-related engagements for \$2.5 million, including:
 - \$579,304 for engaging Allens Linklaters (a pro bono partner) for services involving scaling-up activities including the development of standard subcontracting templates and legal advice on the unincorporated joint venture structure for the RRAP (\$35,000 for this was met by the Component 4 budget);
 - \$418,987 for four KPMG engagements for internal audit and other management consultancy services; and
 - \$142,450 for investment advisers engaged in July 2018 (see paragraphs 2.8 to 2.11).

58 Since 15 August 2019, the use of alternative contractual arrangements has been acceptable if first discussed and approved by the foundation's legal counsel.

59 The supplier's terms required no less than eight weeks' notice in writing of a termination for convenience, with full entitlement to any fees due within the notice period (except where the supplier had failed to resolve breaches of the terms within 14 days or suffered an insolvency event during delivery of the services).

4.47 As part of its scaling up activities, the foundation purchased a contract management system (Integrum) with an annual licence and support fee of \$19,800. Contracts are loaded into the system manually by the foundation's contracting and legal services staff. Comparison of the contracted entities within Integrum against supplier names in the foundation's accounting system indicated that there were at least 40 suppliers that had been engaged and not recorded in Integrum.

4.48 The foundation's procurement policy requires contracts be in place before work is commenced for professional services totalling \$5,001 or more. While the policy allows for purchases of less than \$5,001 without entering into a contract, the head agreement between the Australian Government and the foundation does not permit such an approach. The ANAO identified at least 41 occasions (with a total value of \$3.2 million) where services were either provided without any form of contract (in 10 instances) or where contracts were formalised after work had commenced.⁶⁰ The delays ranged from one to 116 days, with an average of 31 days.

4.49 The foundation does not have a consistent or documented approach for when suppliers should be entered into its contract management system. ANAO analysis was that there were:

- 14 occasions where purchases were entered into or a record created in the foundation's contract management system involving individual amounts of less than \$5,001; and
- 31 occasions where purchases or consultancies with values of more than \$5,000 have not been recorded in the system. Although the foundation advised the ANAO in November 2020 that the purchasing procedure applied to 10 of these, all were associated with goods or services of more than \$5,000 in a single transaction or invoice.

4.50 In April 2021, the foundation advised the ANAO that:

The foundation is implementing system and procedural improvements to ensure consistency in documentation in relation to purchasing and contracting. These improvements include the implementation of a purchase order module in the accounting software and embedding business rules in our workflow for supplier requisition thresholds.

Recommendation no. 6

4.51 To ensure compliance with the Reef Trust Partnership agreement, the Great Barrier Reef Foundation strengthen its subcontracting controls to ensure a written contract that contains all of the applicable provisions required by the head agreement with the Australian Government is in place before any subcontractor commences work.

Great Barrier Reef Foundation response: *Agreed.*

4.52 *The Foundation will continue to have a written agreement in place with all subcontractors before commencing any work with Reef Trust Partnership funding. The Foundation will work with the Department to develop a process for the circumstances when the Reef Trust Partnership standard contracting template is not appropriate or fit for purpose.*

60 Although one of these 31 engagements had a value of less than \$5,001, it was eventually contracted using the foundation's standard contractor template.

5. Administration costs

Areas examined

The ANAO examined whether the amount being spent by the foundation on administration and fundraising costs is under control.

Conclusion

The Great Barrier Reef Foundation (the foundation) has reported to the Department of Agriculture, Water and the Environment (DAWE or the department) that it had spent or has committed to spend \$19.7 million on administration and fundraising to 31 December 2020, and budgets that it will not exceed the capped provision of \$44.3 million for its administration and fundraising costs over the remaining three and a half years of the Reef Trust Partnership (RTP or the partnership). As the grant agreement does not define what constitutes partnership administration costs, the foundation has applied its own internal business rules to decide which costs are allocated against the capped provision, and which it can allocate to the project delivery components of the partnership. The foundation has not consistently implemented arrangements to cap the administration costs of its subcontractors.

Areas for improvement

The ANAO has made one recommendation that the foundation strengthen its approach to implementing the cap on the administration costs of subcontractors.

5.1 The head agreement with the Australian Government requires the foundation to ensure good governance is in place, including appropriate systems and processes, and that effective project management and scaling-up activities be undertaken. To meet these obligations, the agreement provides that Australian Government funding of up to \$44.3 million⁶¹ may be spent on administration over the six year term of the partnership.⁶² The ANAO examined the effectiveness of the foundation's arrangements to contain administration expenses within the \$44.3 million cap.⁶³

61 Comprising: \$22.505 million of the total grant amount of \$443.3 million; and up to \$21.825 million of interest earned on grant funds.

62 The cap was set at 10 per cent of the grant amount, with advice from DAWE that informed the Ministerial decision to award funding identifying that a 10 per cent cap on administration costs (including project-level monitoring, evaluation, reporting and improvement) involved economies of scale compared with the 15 per cent typically allowed under Reef Trust contracts.

63 In February 2021, the foundation advised the ANAO that, in addition to the capped amount of \$44.3 million funded through the Australian Government grant, cash funding raised by the foundation leveraging the Australian Government grant will have its own administration allocation (see paragraphs 3.13 and 3.14). In April 2021, the foundation advised the ANAO that: 'Under the terms of the Head Agreement, during the RTP, the foundation must direct funds raised to Components 2-6, excluding Component 1 – Administration costs. Post 30 June 2024, the foundation will revert to a standard charity operating model whereby income from funds raised and operations is applied to both administrative and direct project costs.'

How much has been spent to date by the foundation on its own administration and fundraising costs?

Up to 31 December 2020, the foundation had reported total expenditure on administration and fundraising costs of \$18.5 million with a further \$1.2 million in commitments. This leaves \$24.6 million available to spend on administration and fundraising over the remaining three and a half years of the partnership.

5.2 Reflecting the extent to which the foundation needed to scale up its delivery capacity and capability, in the first six months of the partnership it reported to DAWE⁶⁴ that 94 per cent of expenditure related to the administration component. Total expenditure reported against the administration component has averaged \$3.6 million for each six month report up to 31 December 2020. The lowest spend on administration was \$3.2 million in the most recent six month period and the highest was \$4.2 million in the six months to 30 June 2019. Staffing costs and consultancy fees have represented the largest components of reported administration expenses.

5.3 The amount of reported administration component expenditure has been falling relative to the amount being reported by the foundation as spent on the other components of the partnership. As at 31 December 2020, the foundation reported total RTP expenditure to date of \$68.8 million, of which 27 per cent (or \$18.5 million) related to the administration component of the partnership. The foundation reported a further \$1.3 million in administration component expenditure commitments, leaving \$24.6 million (55 per cent) of the capped amount available for administration not yet committed.

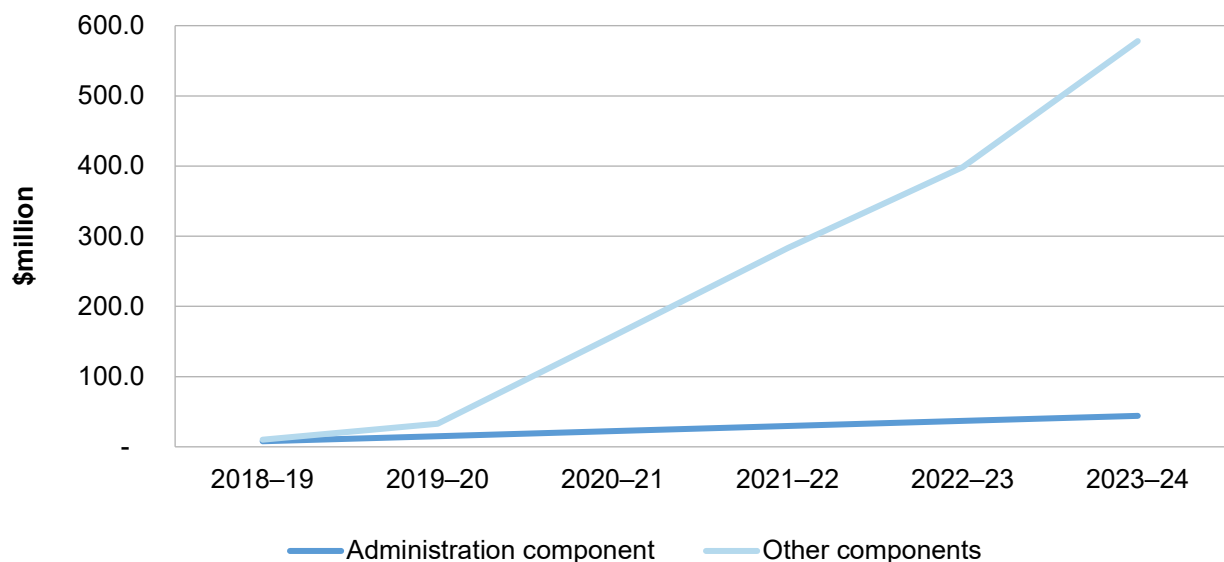
5.4 As illustrated by Figure 5.1, the foundation forecasts that expenditure on administration will be stable over the remaining term of the partnership at just over \$7 million each year. The foundation will be required to undertake granting and procurement processes to commit, and then spend, a further \$442.7 million for projects under the five non-administration components of the partnership. This figure comprises the not yet spent or committed amount of the Australian Government grant (\$285.7 million) as well as the \$157 million⁶⁵ in cash the foundation has targeted to raise from private and philanthropic sectors.

64 The head agreement requires the foundation to provide DAWE with six monthly progress reports that include:

- information on the amount of the Australian Government grant spent and committed by the foundation for the activity as a whole as well as for each RTP component; and
- a statement of the other contributions (separately identifying cash contributions and in-kind contributions) received to date for each component, including the amount of the cash contributions spent, and the extent to which the in-kind contributions have been used, for each component.

65 The foundation's budgeting and forecasts do not identify which year(s) it expects to commit the funds targeted to be raised for expenditure on RTP projects. Figure 5.1 includes the cash fundraising target amount in 2023–24, although advice to the ANAO from the foundation in February 2021 was that 'there is no requirement to have received and spent in full the raised funds by the end of the Agreement.' The foundation further advised that the timeframe for the expenditure of the cash to be raised has not been confirmed.

Figure 5.1: Cumulative actual and forecast expenditure over the term of the partnership



Source: ANAO analysis of foundation records including six monthly reports to DAWE.

Is there an appropriate methodology in place to calculate, and benchmark, administration and fundraising costs of the partnership?

An appropriate methodology is in place to calculate, and benchmark, administration and fundraising efficiency of the partnership for the purposes of public reporting. The foundation has obtained consultancy advice on its approach, and this included a comparison to a sample of three Australian-based major environmental conservation focused not-for-profit entities. Reporting by the foundation is that its spending on partnership administration over the six years to 30 June 2024 will not exceed the capped provision of \$44.3 million.

5.5 In April 2019, the foundation obtained advice from PwC on consistent implementation of an appropriate methodology for monitoring administration and fundraising expenses within the organisation. The advice:

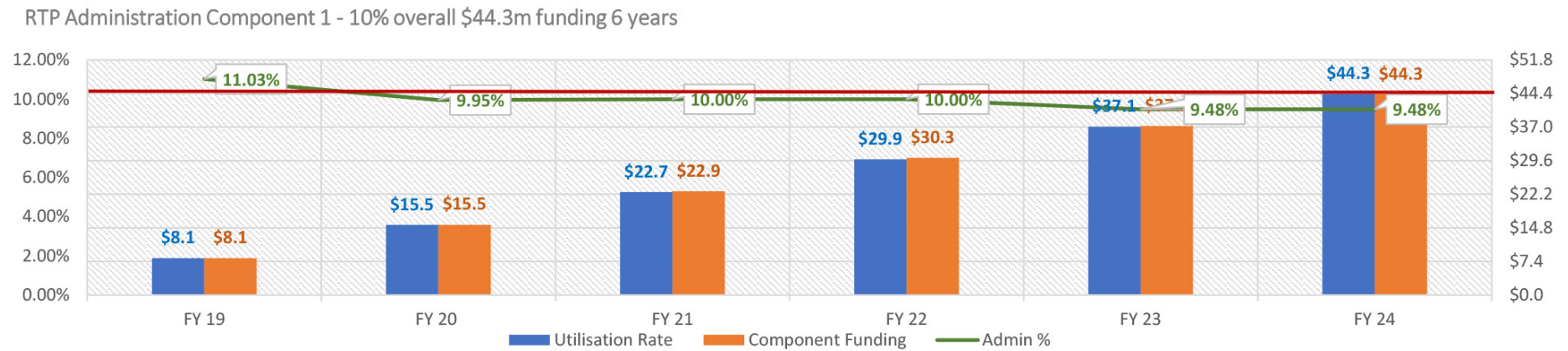
- supported the foundation's use of a charitable commitment ratio, calculated as administration and fundraising costs divided by total costs;
- supported the foundation's proposal to exclude RTP costs from the calculation for 2018 (on the basis that including scaling up costs would not provide a true reflection of the foundation's operational efficiency in that year);

- favourably compared the foundation's ratio of 26.5 per cent for 2018⁶⁶ to the average ratio of 41.9 per cent across a sample of three Australian-based major environmental conservation focused not-for-profit entities where data was reported; and
- suggested that the foundation consider tracking and reporting on its fundraising efficiency. This has not yet been calculated and reported by the foundation in its annual reports.

5.6 October 2020 reporting to the foundation Board was that RTP administration spend was 'on target overall'. This was on the basis that the foundation expects its annual administration costs to continue to decrease each year, resulting in a six-year average expenditure that will be 10 per cent or less than the total grant amount (see Figure 5.2).

66 The ratios reported by the foundation for 2019 and 2020 (including Reef Trust Partnership costs) were 35.3 per cent and 20.7 per cent. As set out at paragraph 5.3, the foundation has \$24.6 million remaining of the capped Australian Government funding to spend on administering the commitment and delivery of \$442.7 million in funding (a ratio of 5.6 per cent), noting advice from the foundation to the ANAO indicating that cash that is raised after the end of the partnership is able to be applied to administration costs (see paragraphs 3.11, 3.13 and 4.6).

Figure 5.2: Forecast cumulative administration expenditure reported in July 2020



Source: Extract from foundation records.

Is the amount spent to date by the foundation on its own administration and fundraising consistent with the grant agreement?

The head agreement between the Australian Government and the foundation does not define what is considered an administration cost (and is therefore subject to the cost cap). The foundation has applied its own internal business rules to decide which costs are to be counted against the capped provision for administration of the partnership, and which costs can be allocated against the five non-administration components of the partnership.

5.7 There is no definition of administration costs in the head agreement between the Australian Government and the foundation.

5.8 The schedule to the agreement identifies the purpose of the administration component and sets out various scaling up activities the foundation is to undertake as part of the administration component. This indicates that funding allocated to the administration component is to cover the cost of:

- governance, including systems and processes;
- scaling up activities including the preparation of specified plans and strategies;
- stakeholder engagement;
- the provision of various reports;
- subcontracting for administrative support as well as for the delivery of projects under the five non-administration components of the partnership; and
- managing and overseeing the delivery of projects under the five non-administration components of the partnership.

5.9 In the context of the ANAO's earlier audit of the award of the grant to the foundation advised the ANAO of its perspective on the grant agreement provisions on partnership administration costs:

'Administrative costs' in this context also includes project managements costs - that is the costs associated with delivering the Reef Trust partnership projects.

- 10 per cent of the grant has been allocated for administrative activities (\$44.3 million).
- A breakdown of our projected costs are as follows:
 - Project design/project management = 4.1 per cent of grant amounting to \$17.9 million
 - Administrative costs = 5.9 per cent of grant amounting to \$26.3 million (which includes the operational costs, fundraising, scaling up, communications and engagement).⁶⁷

67 Auditor-General Report No.22 2018–19, *Award of a \$443.3 million Grant to the Great Barrier Reef Foundation*, p.65.

5.10 In February 2021, the foundation advised the ANAO that:

This letter was sent to the ANAO on 16 December 2018, six months into the design and implementation of the RTP. Considerable design and improvement around forecasting for the term of the Agreement, cost classification and project design has been developed since then. In this reference, the term project management relates to contract management and is defined clearly in a supporting paper accompanying this reply on cost classification.⁶⁸

5.11 More broadly, also in February 2021, the foundation advised the ANAO that:

- the information about the administration component in the schedule to the agreement was ‘not an exhaustive list and is also open to subjective interpretation’; and
- ‘to ensure consistency the foundation has a set of internal business rules related to how we classify administration costs versus Component 2-6 costs’ that is ‘consistent with industry standards’, and that this document has been shared with DAWE.

5.12 According to the Australian Charities and Not-for-profits Commission, the administration costs of charities ‘are generally understood to be costs that are not directly incurred by charities in delivering charitable services’. For the RTP, the foundation is not spending amounts donated to it, rather it has been awarded Australian Government grant funding to implement key actions and achieve key outcomes of the joint Australian and Queensland Government Reef 2050 Long-Term Sustainability Plan (Reef 2050 Plan).⁶⁹

5.13 There were 33 engagements with values totalling \$7 million where the ANAO examined whether costs recorded and reported against the non-administration components should have instead been allocated against the administration component (and therefore counted against the administration costs cap). Some specific examples identified by the ANAO are identified in Appendix 2. With one exception⁷⁰, the foundation’s response to the ANAO was that it considered it had correctly allocated those costs to non-administration components.

Are effective arrangements in place to limit the administration costs of subcontractors (including project level monitoring, evaluation, reporting and improvement activities) to the contracted cap?

Fully effective arrangements are not in place to limit the administration cost of subcontractors to the contracted cap of 10 per cent.

5.14 For subcontractors engaged in relation to the non-administration components of the partnership, the head agreement between the Australian Government and the foundation requires

68 In April 2021, the foundation advised the ANAO that: ‘Significant work was undertaken in 2018–19 to ensure comprehensive, fit-for-purpose, and best practice systems and business rules are in place to enable the effective and efficient delivery of this investment across the six years of the RTP. It is appropriate that the foundation would have refined and confirmed its delivery of the RTP, including the definition of costs, between 2018 and 2020. This definition is consistent with the foundation’s business rules.’

69 It is because the Australian Government provided funds to the foundation to achieve a Commonwealth purpose that the ANAO was able to audit the performance of the foundation under Section 18B of the *Auditor-General Act 1997*.

70 This related to the costs of contracted assessment panel members’ participation costs for some grant activities.

that not more than 10 per cent of project funds payable to them be used for their administration. In April 2021, the foundation advised the ANAO that:

The foundation has amended the RTP Sub-Grant Agreement template to ensure that administration costs are clearly identified and capped at 10% in Schedule 1. These costs will continue to be monitored via the Delivery Partner project financial acquittal reporting as is current practice.

5.15 The 10 per cent cap applies irrespective of whether the subcontractor is engaged as a consultant, independent contractor or through a grant. As the majority of projects being delivered under the non-administration components are delivered through grants, the ANAO's analysis focused on how the foundation limits administration costs being charged by grant recipients.

Grant guidelines

5.16 To promote a consistent and transparent approach to defining and treating expenses that are categorised as administration by its subcontractors, in May 2020⁷¹ the foundation produced a guide titled '*Value for Money Assessment and Benchmarking*'. This guide was produced nearly two years after the head agreement was signed and the foundation had entered into 61 grant agreements.⁷² In April 2021, the foundation advised the ANAO that:

The foundation is cognisant of its obligations under the Head Agreement and its obligation to steward public funds appropriately. In the absence of clear direction under costs of the Head Agreement, and a commitment to work within the 10 per cent cap on Administration costs, as well as the need to be consistent in cost classification, we documented the business rules and use this as an internal guide. These business rules are consistent with the foundation's standard operating model and that of its longstanding project partners AIMS and CSIRO.

The foundation provided these business rules to the department on 25 August 2020 as part of their response to an ANAO recommendation under their own audit, however the foundation has been consistently applying the business rules described in the benchmarking document since the commencement of the RTP in July 2018.

5.17 Each of the eight grant program guidelines examined by the ANAO (see paragraphs 4.31 and 4.32) clearly identified that administration costs were:

- an eligible expenditure item for the grant funding; and
- capped at 10 per cent of any grant funding awarded.

71 The guide was distributed to foundation staff in June 2020. In April 2021, the foundation advised the ANAO that it was also distributed to DAWE.

72 In February 2021, the foundation advised the ANAO that it had 'been operating under these rules since the commencement of the RTP as this is its standard approach to administration versus project costs' and that the 'document was prepared upon the request of the department for some information on the foundation's benchmarking relating to a recommendation under its own audit from the ANAO on this grant.'

5.18 While the foundation had previously advised the ANAO that project design and project management costs related to administration expenses under the head agreement with the Australian Government (see paragraph 5.9):⁷³

- the foundation's May 2020 methodology drew a distinction between 'contract management' and 'project or program management' activities, with the latter considered a 'direct project cost'; and
- for seven of the eight grant opportunity guidelines analysed by the ANAO, the foundation identified project management costs required to deliver the project, including financial audit and accounting costs, as separate to administration costs and therefore not being subject to the 10 per cent cap on administration expenses.⁷⁴

5.19 Departmental advice to the ANAO during the audit of the award of the grant to the foundation⁷⁵ was that project-level monitoring, evaluation, reporting and improvement activities of subcontractors are to be met from within the 10 per cent cap on subcontractor administration costs. Including such expenses as part of a cap on administration costs had been the department's approach when it was responsible for awarding funding for projects to improve the health of the Great Barrier Reef. The foundation has taken a different approach, advising the ANAO in February 2021 that:

The foundation has never been advised that costs of project level monitoring and evaluation was to be included in the delivery partners administration costs and what administration costs can be included is not defined in the Grant Agreement. In the absence of this specificity, the foundation had an independent assessment on best practice monitoring and evaluation costs as a percentage of total project costs and uses this to underpin its review of project monitoring and evaluation costs. This is included in the benchmarking business rules document referred to above⁷⁶ which was provided to the department.

Grant agreements

5.20 Consistent with the head agreement with the Australian Government, the foundation's template short form and long form grant agreements each include a clause that requires that not more than ten per cent of the grant funding be used by the subcontractor for administration.

5.21 The ANAO identified two grant agreements where budgeted administration costs exceeded the 10 per cent cap. In April 2021, the foundation advised the ANAO in relation to these grants that:

- in October 2020 one contract had been formally varied to reduce the administration cost by \$300 to ensure that administration costs were capped at 10 per cent; and

73 In April 2021, the foundation advised the ANAO that: 'Significant work was undertaken in 2018–19 to ensure comprehensive, fit-for-purpose, and best practice systems and business rules are in place to enable the effective and efficient delivery of this investment across the six years of the RTP. It is appropriate that the foundation would have refined and confirmed its delivery of the RTP, including the definition of costs, between 2018 and 2020. This definition is consistent with the Foundation's business rules.'

74 This was done by using the following form of words in section of the relevant guidelines that set out the eligible expenditure items: 'administrative and project management costs required to deliver the project, financial audit and accounting costs (administrative costs must not exceed 10% of the funding allocation).'

75 Auditor-General Report No.22 2018–19, *Award of a \$443.3 million Grant to the Great Barrier Reef Foundation*, p. 66.

76 See paragraph 5.16.

- the other contract that exceeds the 10 per cent cap has now been fully acquitted with an administration cost of 10.1 per cent equating to an administration expense of \$60 above the cap.

Grant acquittals

5.22 The foundation's approach to administering the acquittal of grant funding does not consistently enforce the contractual cap on subcontractor administration costs. Of the 20 grants with funding of \$10.8 million that had been completed by December 2020:

- two had not yet provided final acquittals (as at March 2020);
- three acquittals were provided in a format where it was not possible to separately identify administration costs and the foundation did not take any action to obtain information that would confirm the 10 per cent cap had not been breached;
- one acquittal identified no administration costs despite identifying \$1,200 in administration costs in an agreed amended budget. The foundation did not inquire about this discrepancy with the funding recipient; and
- acquittals for the remaining 14 grants identified administration costs that were consistent with the respective budgets.

5.23 In April 2021, the foundation advised the ANAO that:

As of March 2021, all grant acquittals that were due have been received and have been assessed by the foundation's contract management team. The contract management workflow has been reviewed to ensure compliance with our contract management procedures, which includes validation of project reporting meeting contractual terms and approval by appropriate delegate prior to closure of a contract.

Recommendation no. 7

5.24 The Great Barrier Reef Foundation in consultation with the Department of Agriculture, Water and the Environment, strengthen its approach to implementing the cap on administration costs of subcontractors.

Great Barrier Reef Foundation response: *Agreed.*

Department of Agriculture, Water and the Environment response: *Agreed.*

5.25 *In consultation with the Great Barrier Reef Foundation, the department will work to strengthen the approach to implementing the cap on administrative costs of sub-contractors.*



Grant Hehir
Auditor-General

Canberra ACT
5 May 2021

Appendices

Appendix 1 Entity responses



Great Barrier
Reef Foundation

15 April 2021

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

Via email: OfficeoftheAuditorGeneralPerformanceAudit@anao.gov.au

Dear Mr Hehir,

LETTER OF REPLY TO REPORT: IMPLEMENTATION OF THE GREAT BARRIER REEF FOUNDATION PARTNERSHIP

Thank you for the opportunity to respond to the proposed audit report prepared by the Australian National Audit Office (ANAO) on the *Implementation of the Great Barrier Reef Foundation Partnership* (referred to as the Reef Trust Partnership or RTP).

The Board and staff of the Great Barrier Reef Foundation (the Foundation) are committed to improving the health of the Great Barrier Reef, so that it remains a valuable natural asset that can be enjoyed by future generations. The Foundation understands the accountability associated with being a steward of taxpayer funds, and we welcomed the ANAO's decision to conduct a performance audit.

Immediate need for action

Globally, partnerships between Governments and For-Purpose charitable entities – often referred to as the "Third Sector" – are increasingly being brokered as we grapple with how to solve complex social, environmental, and economic challenges.

Building on its 20 year track record of bringing funding and partners together for the benefit of the Reef, the Foundation accepted the opportunity to partner with the Australian Government because of the critical need for substantive and immediate action to protect the Great Barrier Reef. The RTP creates a window to embed new practice, a collective approach and an appetite and platform for system change. While not the entire solution – more must be done in parallel on climate change – the RTP represents a turning point.

Progress against the Reef Trust Partnership Agreement

Appropriate due diligence, governance, and planning in the first two years of the RTP means that the Foundation has met, and is on track to meet, all deadlines scheduled in the Head Agreement. This is against the backdrop of an at times challenging external operating environment since the commencement of the RTP, most notably the disruption caused by COVID-19.

Our progress to date includes:

- 100 + Reef protection projects are underway with the majority occurring in regional communities with over 300 partner organisations.
- Initiating, in an Australian first, and the largest investment of its kind, a \$50 million Land and Sea Country program co-designed and delivered by Reef Traditional Owners.
- Over 300 landholders participating in water quality programs that are on track to deliver end of partnership targets resulting in significant reductions in sediment, nutrient and pesticide reaching the Reef.

Brisbane | Cairns | Townsville

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Great Barrier
Reef Foundation

- 10,000 participants taking part in community-led Reef protection and citizen science, 75% of whom had not engaged with reef conservation activities before.
- Commencing the world's largest and most ambitious coral reef climate adaptation research effort that will test and deploy at-scale protection, restoration, and adaptation interventions.
- Coordinating the Crown of Thorns Starfish Control Program, the largest on-Reef intervention program in Australia aimed at protecting coral.
- Reaching a global audience of more than 820 million through RTP project story telling.
- \$50m + committed in additional investment through corporate partners, philanthropy, and project co-contributions.
- 65% of the RTP funding spent or under contract by 30 June 2021.

The scale and breadth of the partnerships and actions enabled through the RTP are unprecedented. This progress and its impact against the Reef 2050 Plan targets are documented through a live reporting dashboard on the Foundation's website.

Strong governance

This performance audit recognises the Foundation's commitment to best practice governance and continuous business improvement and complements other ongoing review mechanisms, including:

- Independent biannual evaluations of the performance of the RTP undertaken in accordance with the Monitoring and Evaluation Plan.
- Annual independent financial audits undertaken by statutory auditors, Ernst and Young, in accordance with Australian Accounting Standards and relevant regulatory requirements.
- An ongoing internal audit program undertaken by KPMG, reporting directly to the Board's Audit, Risk and Compliance Committee (ARCC).

Response to Report Findings and Recommendations

(Summary of entity response for inclusion in the report)

The Foundation welcomes the Auditor-General's findings in the report, and is pleased to note comments in relation to the appropriateness of:

- Investment of grant money.
- Major delivery models.
- The Foundation's methodology for calculating and benchmarking administration and fundraising efficiency.

These are significant milestone achievements that reflect the hard work of our team, our volunteer Board of Directors and Committee members, and the many dedicated and passionate partners the Foundation works with to deliver projects that are vital to the survival of the Great Barrier Reef.

The Foundation notes the Auditor-General has identified improvement opportunities in some aspects of the delivery of the RTP. The Great Barrier Reef Foundation agrees to, and has commenced the implementation of, all seven recommendations in the report. We are committed to the continuous improvement of our processes and procedures and will establish (where required) and strengthen (where already in place) arrangements to ensure successful implementation of improvements.



Great Barrier
Reef Foundation

Recommendation no.1

The Great Barrier Reef Foundation and the Department of Agriculture, Water and the Environment ensure a bank deed protecting the Australian Government is in place before any Reef Trust Partnership funds are invested with a financial institution.

Entity response
Agreed.

Recommendation no. 2

The Great Barrier Reef Foundation:

- Include the extent to which funding candidates will provide a cash or in-kind contribution as a selection criterion for all project delivery grants and procurements; and
- Follow up with partners where acquittals do not demonstrate that contracted contributions have been provided in full.

Entity response
Agreed.

Recommendation no. 3

In consultation with the Department of Agriculture, Water and the Environment, the Great Barrier Reef Foundation develop, agree and report against interim fundraising targets for each stream of the approved co-investment strategy so as to provide a better indication of how much of the fundraising target will be received by the end of the Reef Trust Partnership on 30 June 2024.

Entity response
Agreed. The Foundation has notified the Department of the submission of an updated Collaborative Investment Strategy before 30 June 2021.

Recommendation no. 4

To ensure compliance with the Reef Trust Partnership Agreement, the Great Barrier Reef Foundation increase the extent to which it uses open and competitive selection processes to undertake procurement.

Entity response
Agreed. The Foundation has in place an appropriate Procurement Policy that allows for open and competitive processes. We will continue to work to identify opportunities for improvement with our internal audit provider and the Reef Trust Partnership contract manager.

Recommendation no. 5

The Great Barrier Reef Foundation:

- Specify clear selection criteria for all granting opportunities and procurement processes, including those that do not involve a competitive selection process; and
- Record an assessment against those criteria in advance of taking any decisions to commit to spending Reef Trust Partnership funding.

Entity response
Agreed.



Great Barrier
Reef Foundation

Recommendation no. 6

To ensure compliance with the Reef Trust Partnership Agreement, the Great Barrier Reef Foundation strengthen its subcontracting controls to ensure a written contract that contains all the applicable provisions required by the Head Agreement with the Australian Government is in place before any subcontractor commences work.

Entity Response

Agreed. The Foundation will continue to have a written agreement in place with all subcontractors before commencing any work with Reef Trust Partnership funding. The Foundation will work with the Department to develop a process for the circumstances when the Reef Trust Partnership standard contracting template is not appropriate or fit for purpose.

Recommendation no. 7

The Great Barrier Reef Foundation in consultation with the Department of Agriculture, Water and the Environment, strengthen its approach to implementing a cap on administration costs.

Entity Response

Agreed.

In relation to the ANAO's observations that informed the recommendations, the Foundation reiterates that we have operated under the terms of the Agreement in consultation with our funding partner and in compliance with the policies, processes and business rules approved as part of our governance and risk framework. Responses supporting the position of the Foundation have been included in the report at the invitation of the Auditor-General. In addition to this the Foundation offers the following points:

- The Foundation is committed to working within the 10% administration cap outlined in the Head Agreement and remains on track to do so.
- Since inception of the investment strategy (following the election), the investment portfolio has delivered 86 basis points annualised excess return to the reference bank bill rate. The investment approach has produced a forecast excess return to the RTP specified target (\$21.8 million) of \$5.28 million.
- Despite the impacts of COVID-19, realising the leveraging potential of the grant remains a primary focus for the Foundation.
- 91% of all grants (valued at \$122.1 million) have been awarded as the result of a competitive process.
- Of the 71% (by number of procurements, not by value) of all procurements reviewed and found to have had no competition, 41% of these (valued at \$703,064) did not require a competitive process in accordance with Board approved procurement thresholds that are based on the Queensland Government's policy.
- Regarding the two grant agreements identified by the ANAO to exceed the 10% subcontractor administration cap, one contract was adjusted to have the administration costs capped at 10%, and the other allowed to proceed given administration costs were 10.1% or \$60 over the cap.
- In some circumstances where the RTP Subcontractor or Consultancy template posed onerous obligations and costs on a supplier, the Foundation has had to allow for the consideration of suppliers' own terms or a modified contracting template.



Great Barrier
Reef Foundation

The Board, Partnership Management Committee and ARCC are focussed on balancing the need for urgent and immediate action to protect the Reef with strong governance and accountability to our broad range of stakeholders, including government and the Australian public.

At this critical juncture, where the impacts of climate change are ever present, and the task to save the Great Barrier Reef and coral reefs on the planet is no longer a future challenge, the Foundation remains focussed on transforming this landmark environmental investment into a turning point in the protection and preservation of one of the world's most spectacular environmental icons.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'JMSchubert'.

Dr John Schubert AO
CHAIRMAN



Australian Government
Department of Agriculture,
Water and the Environment

ANDREW METCALFE AO
SECRETARY

Mr Grant Hehir
 Auditor-General
 Australian National Audit Office
 Via email - OfficeoftheAuditorGeneralPerformanceAudit@anao.gov.au

Dear Mr Hehir

Thank you for your email of 18 March 2021 regarding the Australian National Audit Office's proposed audit report 'Implementation of the Great Barrier Reef Foundation Partnership' and for the opportunity to respond to the components of the report that apply to the Department of Agriculture, Water and the Environment.

Pursuant to section 19 of the *Auditor-General Act 1997*, the Department of Agriculture, Water and the Environment has prepared a response to the extracts of the proposed report provided.

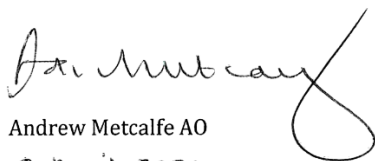
The proposed report concludes that the implementation of the partnership between the Australian Government and the Great Barrier Reef Foundation has been partially effective. The department notes this conclusion and agrees that the recommendations will provide an opportunity to strengthen our existing controls for the administration of this very important grant.

The department remains satisfied with the performance of the Great Barrier Reef Foundation in delivering the unique partnership model. The Foundation has utilised innovative and flexible options to rollout over 160 projects focused on protecting the Great Barrier Reef. Over \$135 million has been committed (as at 31 December 2020) to a range of delivery partners via a combination of targeted and competitive processes. We are pleased to note that this investment is providing much needed economic support to regional communities in Queensland struggling with the economic impacts of COVID-19.

The department is committed to continuing to strengthen its work practices and performance in order to deliver strong environmental, social and economic outcomes through better practice in grant management. The report provides useful feedback on key learnings for good practice in governance, risk management as well as procurements and grants that the department will consider in future work. The response sets out the actions the department will take to strengthen processes supporting implementation of the grant between the Australian Government and the Great Barrier Reef Foundation.

Please find enclosed with this letter the department's summarised response to the report and a response to the recommendations.

Best wishes


 Andrew Metcalfe AO
 9 April 2021

Appendix 2 Examples of engagements reported against non-administration components

1. The foundation has re-allocated on a number of occasions expenses or engagements that were previously charged against the administration component. These costs were re-allocated or apportioned against non-administration components such as the Reef Restoration and Adaptation Science; Water Quality; and Indigenous and Community Reef Protection components.

Contractors performing a staff or employee function within the foundation

2. It has been common practice for the foundation to engage contractors to perform staff tasks since before the commencement of the partnership in July 2018. The foundation adopted this approach for the delivery of the partnership. Examples include:

- HeadStart Development Pty Ltd — awarded two consecutive contracts totalling \$800,800 for the role of Reef Trust Program (RTP) Program Director, commencing in July 2018;
- C2O Consulting — engaged as a member of the Water Quality Working Group with three consecutive contracts totalling \$114,393, commencing in July 2018;
- SeeSide Dialogue — originally engaged by the foundation under a secondment agreement with the Commonwealth Scientific and Industrial Research Organisation (CSIRO) for technical advisory services in July 2018. The original agreement was varied five times, with payments totalling \$197,097. On 15 July 2020, the foundation engaged the individual's services directly through a \$169,000 contract with their newly registered company; and
- the program manager and partnership coordinator roles for the regional water quality grants program, where costs were recorded against the second component (Water Quality). Where similar roles have been undertaken by foundation staff, the costs have been recorded against the administration component.⁷⁷

3. In this latter respect, the application forms (issued first for the Mackay-Whitsunday and Fitzroy regions in late 2019) outlined that successful consultants were to be:

responsible, in close collaboration with GBRF, with managing the design, coordination and on-ground implementation of the regional programs through what is expected to be a suite of projects to be delivered by different delivery providers as part of an integrated program of activities. GBRF will retain responsibility for contracting and making payments to delivery providers.⁷⁸

77 The foundation's January 2021 payroll records indicated that 25 per cent of the cost of Water Quality component staff salaries would begin to be apportioned to that component rather than the administration component.

78 The form further outlined that the foundation was 'targeting a total cost of no more than 10% of the total program amount for these roles. That is, given the combined value of the programs of \$17.8 million, GBRF anticipates committing no more than \$1.7 million in total towards both roles (program manager and partnership coordinator) across both regions for the duration of the program.'

4. Where contracts have been executed⁷⁹, the regional natural resource management (NRM) bodies have largely been contracted into these roles, with some responsibilities and tasks performed being the same as those performed by foundation staff. In response to the findings of the audit, the foundation advised the ANAO in February 2021 that in one case (for the Mackay-Whitsunday region) some roles performed by the contracted program manager should be charged to the administration component (for example, assessing and ranking grant applications; and notifying applicants of the funding outcomes). The contract value was \$2.25 million and was recorded in total against the Water Quality component.

5. Prior to the end of the second C2O Consulting contract period in May 2020, costs stopped being recorded against the administration component, with \$23,925 instead being recorded against the second component (Water Quality). Expenses have largely been associated with the consultant's work as a Water Quality Working Group member. In response to the audit findings, the foundation advised the ANAO in February 2021 that the shift in costs was due to the focus of the working group, which was originally on component level and program level activities, but as individual projects began to be implemented, the focus shifted to project level activities.⁸⁰

6. Similarly, costs were charged against the administration component for services provided under the CSIRO secondment agreement until mid-June 2020, after which, \$29,730 was charged to the second component (Water Quality) and \$15,224 was charged to the fourth component (Reef Restoration & Adaption Science). From 15 July 2020, the foundation continued to engage this individual's services directly through a newly registered company (SeeSide Dialogue). The contract was valued at \$169,000 and payments to date totalling \$70,779 have been charged to the second, fifth and sixth components (Water Quality, Indigenous & Community Reef Protection and Integrated Monitoring & Reporting respectively). The foundation advised the ANAO in February 2021 that while it considers some of the contractor's work would fit under the 'delivery category' of its internal business rules, it would take a conservative approach and reallocate the contractor's expenses to the administration component.

7. HeadStart Development Pty Ltd had both the consecutive RTP contracts charged fully against the administration component with payments to 31 December 2020 totalling \$606,388. The individual providing the contracted services had been in the Program Director role since the partnership commenced working across all components.

8. Since this supplier was appointed as the Executive Director specifically responsible for the fourth component (the Reef Restoration and Adaptation Program or RRAP), the cost of four days of work each week has been paid through the foundation salary system rather than via the contract with the cost of the salary allocated to the Reef Restoration and Adaptation Program (RRAP) component rather than the administration component. The foundation advised the ANAO in February 2021 that 'the Headstart contractor has undertaken two different roles since July 2018, the first totally administrative component facing, the second and current role is fully

⁷⁹ In some of the rounds conducted under the Regional Water Quality Program, the foundation either did not advertise for one or both of these roles (foundation staff are instead doing this work) or it was not satisfied with the number and/or quality of the applications received.

⁸⁰ The foundation advised the ANAO in March 2021 that all of 'C2O [Consulting]'s costs (prior, current and future), excepting those related to detailed regional program design work [will be] reallocated to the administration component.'

project facing under Component 4.’ In relation to the contractor’s current role, the foundation further advised that:

In this role he reports directly to the Board and Chair of RRAP and undertakes direct project delivery activities relating to Component 4. The 2019/20 and 20/21 approved AWP’s describe and provide a budget allocation under Component 4 for the program management function of the RRAP. This role is a part of this program management function.

Employee salaries charged to non-administration components

9. In the September 2018 Resourcing Plan (a document contractually required under the head agreement) the foundation outlined its intention to increase its staffing levels from 15 (in July 2018) to 39 FTE (by July 2019). Costs outlined in the plan, including staff salaries were to ‘be treated as Administrative Activities (as stated in clause 5.1.2 of the Agreement)’.

10. More recently, non-administration components have also been meeting the costs of foundation employees (as opposed to contractors). This has been observed in the case of the Program Director for the COTS Control Innovation Program, Secretariat for the Traditional Owner Partnership, and the Executive Assistant to the Managing Director and Executive Directors. The foundation advised the ANAO in February 2021 that budgeting for each of these roles had been approved as the direct delivery of a specific project or activity from a non-administration component and was set out as such in the respective Annual Work Plan.⁸¹

11. ANAO analysis was that while the practice of meeting the cost of staff salaries from non-administration components commenced in the second half of 2019, it became more pronounced from June 2020. Between June and December 2020, \$460,076 of salary-related expenses were met from components two to five, including the transfer of \$121,884 previously recorded and reported against the administration component to the fourth and fifth components (RRAP and Indigenous and Community Reef Protection).

12. The foundation advised the ANAO in February 2021 that the transfer of expenses:

- related to the legitimate expensing of non-administration component roles that had been identified and budgeted for in the approved RTP Annual Work Plan; and
- are reflective of the practice at that time to apply allocation in arrears, whereas the practice is now to confirm the allocation staff costs to the correct program and activity codes at the time payroll is processed.

Consultancy work in relation to specific services

13. Kiorion Pty Ltd has had three contracts with a total value of \$220,800 to, on an ‘as required basis’, advise and coordinate ad hoc activities, projects and reporting relating to the partnership, or any other initiatives, as directed. Costs under the first two contracts were charged to the administration component. From December 2019 (two months into the third contract period), expenses under this contract began to be allocated to non-administration components. Up to

81 Annual Work Plans are developed in accordance with a consultation process that includes engagement with and feedback from the Department of Agriculture, Water and the Environment (DAWE).

December 2019, \$24,436 has been charged to the fifth component for Indigenous and Community Reef Protection. This was relating to an audit of Great Barrier Reef Traditional Owner governance arrangements⁸² and research into community stewardship programs relevant to the Great Barrier Reef.⁸³ The foundation advised the ANAO in February 2021 that:

- work in the third contract related to a governance and a stewardship project, both budgeted projects contained within the 2019–20 approved Annual Work Plan for Traditional Owner Reef Protection and Community Reef Protection respectively; and
- the first two contracts related specifically to providing support to the foundation in the preparation of Component 1 activities (that is, its progress reports to the department and the development of plans and strategies required by the partnership head agreement).

14. In this latter respect, the work conducted by the consultant also included an October 2018 'Great Barrier Reef Landscape Audit' which was a desktop research activity similar in nature (that is, of specific relevance to the Indigenous and Community Reef Protection component of the RTP) to the one expensed to the non-administration component in December 2019.

15. Until recently, advice relevant to the partnership obtained from the foundation's legal adviser (Allens) had been consistently recorded against the administration component. As of 31 December 2020, \$579,304 has been paid to Allens from partnership funds. Costs totalling \$35,099 relating to advice on an unincorporated joint venture were charged over November and December 2020 to the fourth component (Reef Restoration & Adaptation Science). The foundation's advice to the ANAO in respect of these latter costs was that they are:

project specific administrative costs on behalf of the RRAP consortium for the RRAP project. All of Allens services to the Foundation have been in relation to the administrative component activities until the 2020/21 FY when Allens was contracted to develop the IP clauses in the RRAP unincorporated joint venture agreement on behalf of the RRAP consortium. Legal work for the development of this very project specific unincorporated joint venture agreement is a budgeted expense within the program management activity of RRAP, included in the 2019/20 and 2020/21 Component 4 AWP. This is classified as an administrative cost within this component and is included within the 10% administrative cap for this program.

82 Foundation records indicate that this work included a broad review of Great Barrier Reef governance frameworks including 'Reef 2050 governance (GBR Ministerial Forum, Reef Advisory Committee, Independent Expert Panel, RIMReP Steering Group), Reef Trust Partnership (incl. GBRF Board, ISAC, PMC, TOAG and Traditional Owner Technical Working Groups), national-level Reef-related governance (incl. EPBC Act IAC, GBRMPA Board, IRAC and TRAC) and regional bodies (incl. PBCs, NRMs and healthy waterway partnerships).'

83 This included work to align 'stewardship programs with the Reef Trust Partnership Community Reef Protection Component Monitoring and Evaluation Plan, and Annual Work Plan'.