

Part Two

Findings and Conclusions

1. Introduction

Background to preliminary inquiries

1.1 On 17 February 1998, the Leader of the Opposition, the Hon. Kim Beazley MP wrote to the Auditor-General raising concerns about public accountability and a *prima facie* case of party-political bias in the distribution of funding under the NHT. Mr Beazley requested that the Auditor-General examine the administration of the NHT particularly in relation to:

- *'the appropriateness of the distribution of the funding allocation, considered against the stated objectives and purpose of the Trust; and*
- *the adequacy of the funding approval process - especially in relation to its structure which involves at its apex a two-person Board of Ministers - from the point of view of accountability and transparency in public finances.'*

1.2 The Auditor-General, in responding, advised that the ANAO had intended to conduct a performance audit of the NHT in 1999. However, in the light of his request and advice that the next round of funding applications closed at the end of March, he had decided to undertake preliminary inquiries concerning the administration of the NHT. Subsequently, some other Members of Parliament wrote to the Auditor-General requesting an examination of a range of other matters, including:

- cost shifting from the States and/or Territories to the Commonwealth;
- the quality of projects under the particular NHT programs;
- the level of private versus public benefit;
- the level of new and additional funding through the NHT;
- the administration of small grants;
- the link between program evaluation and benchmarks such as the State of the Environment Report;
- the degree to which the NHT is repeating the mistakes of the past; and
- the scope for evaluating the effectiveness of expenditure on vegetation management issues.

1.3 After considering all requests received, it was decided that the preliminary inquiries should be directed to the transparency and rigour of the decision-making process of the NHT funding approvals. This was done with a view to determining if there was likely to be value in terms of

improved administration and Parliamentary assurance by conducting a full audit at this time.

Methodology and scope

1.4 The ANAO examined files and records in Environment Australia and the Department of Primary Industries and Energy (DPIE) that were relevant to the Commonwealth decision-making process for NHT grants in all programs operating within a single One-Stop-Shop process involving Regional Assessment Panels (RAPs) and State Assessment Panels (SAPs). Consequently, inquiries focussed on:

- National Landcare Program (NLP);
- Murray-Darling 2001;
- Bushcare: the National Vegetation Initiative;
- National Rivercare Program (including Waterwatch);
- Farm Forestry Program;
- Fisheries Action Program; and
- National Wetlands Program (where relevant to the One-Stop-Shop).

1.5 Although the Coast Care Program involves community grants, it was not included as it is not administered through the same RAP/SAP process and projects had not been announced prior to the commencement of ANAO inquiries. The Endangered Species, National Reserve System, National Feral Animal Control and the National Weeds Programs were not examined as they do not involve significant community grants components and projects are not considered through the One-Stop-Shop assessment process.

1.6 Preliminary inquiries did not extend to NHT project assessments by the RAPs, SAPs or State Ministers as they fall outside the audit mandate of the Commonwealth Auditor-General. As sufficient information was available on Ministerial views and priorities through the Departmental file records (and confirmed in discussions with Departmental officers), the ANAO did not examine records from the offices of the Ministers. In addition, the ANAO did not examine administrative matters outside of the decision-making process as the NHT has only been in operation for a relatively short period of time and the first annual report on the operations of the NHT, as required under section 43 of the *Natural Heritage Trust of Australia Act 1997*, has not yet been presented to Parliament.

1.7 The ANAO's review related primarily to the initial NHT funding approvals for each State and Territory which allocated over 80 per cent of 1997-98 NHT funding for the programs examined. Subsequent

announcements of the balance of the 1997-98 NHT funding were not analysed by the ANAO as funding was still being allocated during the course of the preliminary inquiries.

2. The Natural Heritage Trust

Objectives of the Natural Heritage Trust

2.1 The stated purpose of the Natural Heritage Trust is:

*'to stimulate significant investment in the conservation, sustainable use, and repair of Australia's environmental, agricultural, and natural resources into the 21st century. The NHT will provide a framework for strategic capital investment in the natural environment, achieve complementary environmental, natural resource management and sustainable agriculture outcomes consistent with agreed national strategies and will foster partnerships between the communities, industry and all levels of government.'*³

Natural Heritage Trust funding

2.2 The Government has allocated \$1.25 billion to fund the NHT. Table 1 provides a year-by-year breakdown of funding estimates for the Environment Australia and DPIE over the five years to 2001-02.

Table 1
Natural Heritage Trust Estimates^a

	96-97 (\$m)	97-98 ^b (\$m)	98-99 (\$m)	99-00 (\$m)	00-01 (\$m)	Total (\$m)
Environment Australia	23.1	92.2	145.5	174.3	190.1	625.3*
Dept of Primary Industries & Energy	18.6	94.8	144.9	184.9	180.6	623.8
Total	41.8*	186.9*	290.4	359.2	370.6*	1249.0*

Source: *Investing in Our Natural Heritage - The Commonwealth's Environment Expenditure 1997-98*

(a) Totals have been rounded to the nearest \$100 000.

(b) NHT estimates for 1997-98 exclude \$52.4m appropriated to the National Landcare Program through the *Natural Resource Management (Financial Assistance) Act 1992*.

(*) Totalling errors due to rounding

2.3 Most of the above funding will be spent on community grants, regional projects and initiatives, and State and Territory agency projects.

³ DPIE & Environment Australia 1997, *National Partnership Arrangements 1997-98: Natural Heritage Trust*, Commonwealth of Australia, Canberra, p. 1.

NHT Programs included in the preliminary inquiries

2.4 The programs under the NHT included in the ANAO's preliminary inquiries each have their own specific goals and funding. These are included at Table 2.

Table 2
NHT Programs included in ANAO inquiries

NHT Program	Funding 1997-98 \$m	Program Goal
National Landcare Program (DPIE)	87.4 ^a	To develop and implement resource management practices which enhance our soil, water and biological resources and which are efficient, sustainable, equitable and consistent with the principles of ecologically sustainable development.
Murray-Darling 2001 (DPIE)	29.5	To contribute to the rehabilitation of the Murray-Darling Basin, with a view to achieving a sustainable future for the Basin, its natural systems and its communities.
Bushcare: The National Vegetation Initiative (Environment Australia)	29.1	To reverse the long-term decline in the quality and extent of Australia's native vegetation cover.
National Rivercare Program (DPIE & Environment Australia)	12.4	To ensure progress towards the sustainable management, rehabilitation and conservation of rivers outside the Murray-Darling Basin and to improve the health of these river systems.
Farm Forestry Program (DPIE)	1.6	To encourage the incorporation of commercial tree growing and management into farming systems for the purpose of wood and non-wood production, increasing agricultural productivity and sustainable natural resource management.
Fisheries Action Program (DPIE)	1.2	To help achieve the repair of Australia's aquatic environment and assist in the conservation and sustainable use of fish resources in freshwater, estuarine and marine environments.
National Wetlands Program (Environment Australia)	1.8	To promote the conservation, repair and wise use of wetlands across Australia.
Total	163.0	

Sources: NHT Partnership Agreements between the Commonwealth and the States and Territories, 1997; *Investing in Our Natural Heritage - The Commonwealth's Environment Expenditure 1997-98* (pp. 3, 108), May 1997; 1997-98 Portfolio Budget Statements - Primary Industries and Energy Portfolio (Budget Related Paper No. 1.12), May 1997.

(a) Funding includes \$52.4m appropriated through the *Natural Resource Management (Financial Assistance) Act 1992*.

The project selection process

2.5 The selection process is outlined in Figure 1 (see p. 11). Historically, RAPs and SAPs were appointed by State Ministers to provide recommendations on community and joint Commonwealth-State projects under the National Landcare Program administered through DPIE. These committees have had their role subsequently expanded to take into account additional programs under the NHT.

2.6 Both Environment Australia and DPIE have jointly published an integrated package of documents that include:

- program guidelines;
- selection process details;
- eligibility criteria; and
- application forms.

2.7 These documents provide the basis for transparent decision-making and, in particular, aid the RAPs and SAPs in their assessment of NHT funding applications.

2.8 In addition, State and Territory officials were advised of notional allocations for each NHT program to give the States and Territories an indication of the amount of funding they were likely to receive. However, final approvals to States and Territories were subject to the merits of projects as determined by the Ministers.

2.9 The Departments have advised that these notional allocations were based on factors such as historic State and Territory shares under previous environmental and natural resource management programs adjusted for programs or program elements that have started or finished and other policy commitments. In addition, Environment Australia advised that notional allocations for Bushcare were based on qualitative assessment of threats within particular regions of Australia. The notional allocations advised to the States and Territories allowed a degree of flexibility in distributing funds between the States and Territories. The notional allocations in 1997-98 are reflected in Table 3.

2.10 While the ANAO is mindful that the state and regional assessment panels are the responsibility of the States and Territories, a broad range of environmental interests need to be adequately represented on regional and state assessment panels to counter any perceptions that recommendations to the Commonwealth might be oriented towards particular interests.

Table 3
1997-98 Notional allocations^{a,b}

State/Territory	1997-98 Notional Allocation \$m
New South Wales	38.4
Victoria	29.0
Queensland	23.7
Western Australia	23.8
South Australia	18.7
Tasmania	8.9
Northern Territory	4.5
Australian Capital Territory	0.4
Total funding available^c	147.3*

Source: DPIE and Environment Australia documents

(a) Totals have been rounded to the nearest \$100 000.

(b) Includes only those NHT programs examined by the ANAO.

(c) Difference between notional allocations and total NHT funding (\$15.7m) represents funds held in reserve for subsequent 1997-98 project approvals.

(*) Totalling error due to rounding

2.11 This is particularly important with NHT programs such as Bushcare which have an explicit environmental conservation focus. In this context the ANAO notes that the Joint Committee of Public Accounts and Audit was concerned to ensure that the RAPs and SAPs have the right membership to cover the issues relating to needs assessment.⁴

2.12 Although membership of state and regional assessment panels was broadened following the establishment of the NHT, Environment Australia and DPIE have recognised subsequently that the balance of representation on these panels could be further improved in relation to programs with more explicit environmental objectives. The Partnership Agreements between the Commonwealth and the States and Territories for delivery of the NHT allow the Commonwealth greater influence over the composition of RAPs and SAPs from the 1998-99 funding round. These Agreements also give some guidance as to the appropriate skills and expertise that RAP and SAP members need to undertake their assigned tasks successfully. The Ministers have written jointly to their State and Territory counterparts advising that the Commonwealth is seeking to *'increase the level of biodiversity conservation expertise on all panels as a priority for this year'*.

⁴ Joint Committee of Public Accounts and Audit 1998, *Report 359 - Review of Auditor-General's Reports 1996-97 Fourth Quarter*, Chapter 3 - ANAO Report No.36 1996-97 Commonwealth Natural Resource Management and Environment Programs. AGPS, Canberra, p. 35.

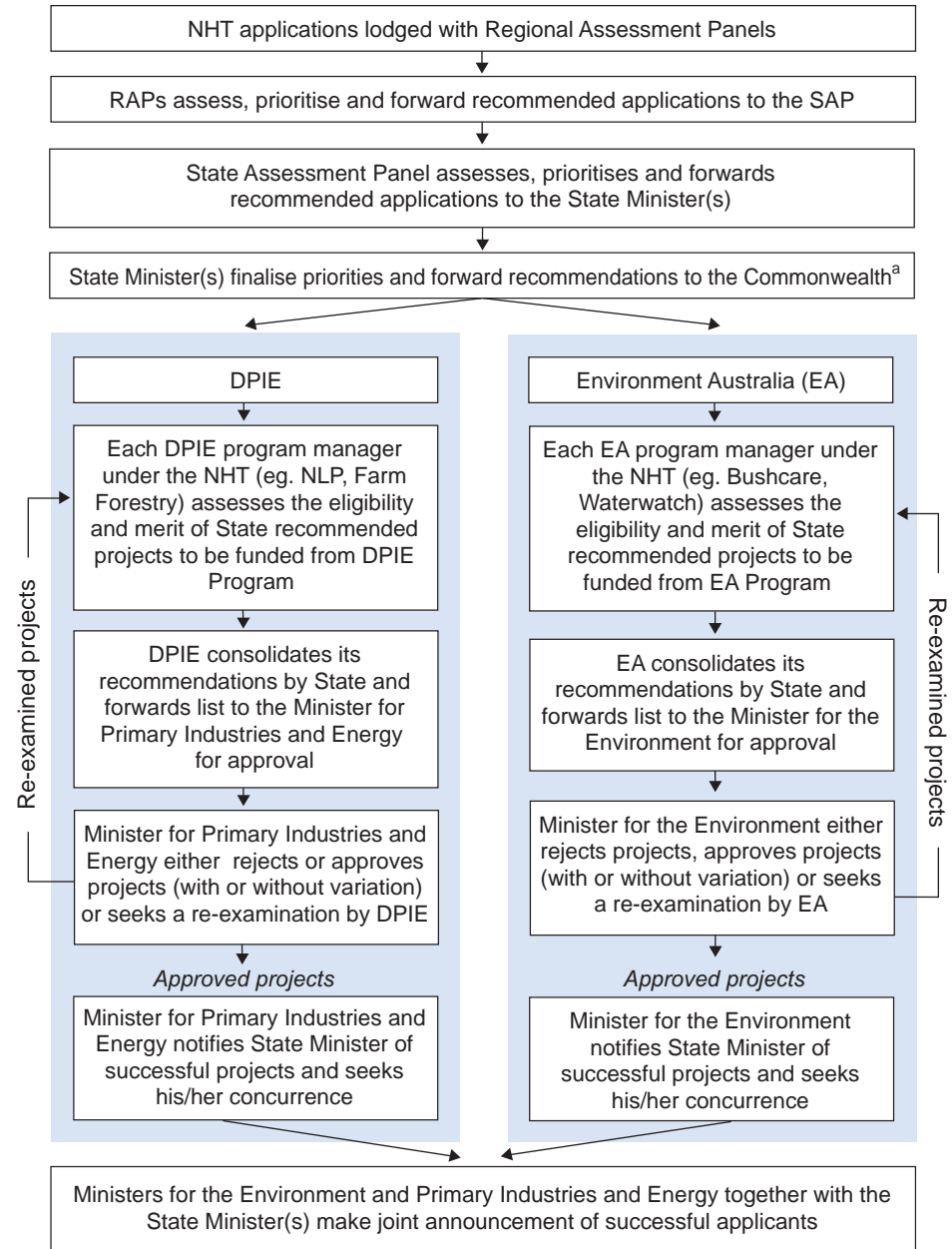
2.13 The ANAO considers that unless this matter is managed in a systematic fashion, it could adversely impact on the NHT decision-making process. Although some of the larger NHT programs have a predominantly rural focus, panel membership is a potential factor influencing decisions about the greater proportion of NHT funding distributed to rural regions.

2.14 While Commonwealth officers are actively involved in providing *informal* advice on project eligibility at the Regional and State Assessment Panel level, with the exception of Victoria, the *formal* role of the Commonwealth in advising on NHT projects begins on receipt of recommendations from the States and Territories, as illustrated in Figure 1 on the following page. These recommendations include project priorities and/or rankings on a State, regional/catchment and/or NHT program basis.

2.15 Once State and Territory recommendations are received, Environment Australia and DPIE assess those projects that relate to the NHT programs which they administer. Project funding recommendations for each NHT program are then consolidated into two Minutes (one each for DPIE and Environment Australia) for assessment by the Ministers. The ANAO notes that, while the broad framework was the same for Environment Australia and DPIE, there was some difference in assessment practices used between the Departments and between programs within Departments.

Figure 1
Natural Heritage Trust One-Stop-Shop Assessment Process

DPIE and Environment Australia endeavoured to attend most RAP meetings and all of the SAP meetings in an observer/adviser capacity. This occurred in all States/Territories except Victoria. Prior to these meetings, NHT applications were sent to DPIE and Environment Australia (primarily for an eligibility assessment). The shaded areas below represent the focus of the ANAO's preliminary inquiries.



(a) DPIE has indicated that Tasmania was the only State where the State Minister varied its SAP's recommendations

3. The Transparency of the Decision-making Process

Importance of transparency in decision-making

3.1 The ANAO considers that transparency in the decision-making process is the cornerstone of effective public accountability. At a minimum:

- administrative decisions should be fair and open;
- decisions should be based on principle and supported by documented reasons; and
- those involved in the decision-making should be accountable for their decisions.

3.2 These principles were endorsed by the House of Representatives Standing Committee on Environment, Recreation and the Arts in their review of Audit Report No.9 1993-94 *Community Cultural, Recreational and Sporting Facilities Program*.⁵

3.3 Within the context of the NHT, transparency means that:

- prior to the closing date for applications, criteria for project eligibility and selection should be documented and openly communicated to all potential applicants and decision-makers involved in the process;
- the decisions and reasons for the decisions should be sufficiently documented to satisfy any questions concerning the approval of financial assistance for projects under the NHT; and
- the reasons for decisions should be directly related to the criteria for project eligibility and selection.

Methodology

3.4 Where State and Territory recommended projects were verified by the Departments as to their eligibility, and approved by the Ministers without change, the ANAO did not review further documentation to establish the reasons for the decisions. In effect, this is because the Ministers' approval was an endorsement of State and Territory priorities and the

⁵ House of Representatives Standing Committee on Environment, Recreation and the Arts 1994, *The Community Cultural, Recreational and Sporting Facilities Program: A review of a report on an efficiency audit by the Auditor-General*, House of Representatives Printing Office, Canberra, p. vii.

ANAO considered that Ministerial endorsement of the recommended projects from the States and Territories was sufficient documentation of reasons for decisions. However, there were three categories of other decisions that were examined by the ANAO on the basis of a selected sample of projects.

3.5 First, where Ministers varied the amount recommended by the States and Territories, the ANAO expected to see documented evidence of the reasons for these decisions. Second, where recommended projects were rejected by Ministers, the ANAO also expected to see documented evidence of the reasons for the decisions where projects of lower rank (as identified by the States and Territories) received funding and higher ranked projects were rejected. Third, where projects were approved by the Ministers that had not been recommended by the States and Territories, the ANAO expected to see sound documented evidence of the reasons for these decisions to avoid any perception of some applicants receiving favoured treatment. These cases are examined in more detail in Chapter 4.

3.6 Projects rejected by the Ministers that were ranked below the lowest ranked project that received funding were not examined because the reason for their rejection was that there were insufficient NHT funds available to finance these projects. Project funding recommended by the States and Territories exceeded the notional funding allocation advised to the States and Territories by approximately \$44.7 million.

Findings

3.7 The ANAO found that project application guidelines for the NHT included extensive eligibility and selection criteria. In addition, the guidelines specified activities that are ineligible. These guidelines were distributed to all Senators and Members of Parliament, NHT applicants and other stakeholders. While the basis for Ministerial variations was clearly related to the NHT guidelines, the emphasis placed on particular criteria by the Ministers was greater than expected by applicants, RAPs, SAPs, State and Territory Ministers and the Departments for the 1997-98 funding round. The ANAO notes that, for the 1998-99 round, the Ministers have written to their State and Territory counterparts advising of Commonwealth priorities.

Project rejections and variations

3.8 An issue that has been raised in the Parliament and elsewhere has been the number of projects rejected and varied by the Ministers from those recommended by the State and Territory Ministers.

3.9 The numbers and value of NHT applications, recommendations and approvals in respect of programs examined by the ANAO are included in Table 4. Table 4 also illustrates the number and value of applications rejected and varied.

Table 4

NHT programs examined by the ANAO

The Submissions to the Commonwealth	From some 6000 original applications to the States and Territories 3170 projects, valued at \$192.0 million, were submitted to the Commonwealth.
The Commonwealth Approvals ^a	<p>2428 projects, valued at \$132.9 million, were approved by the Commonwealth. Of the projects approved, some 80 per cent were for community projects and some 20 per cent were for State and Territory agency projects.</p> <p>This includes 20 projects (valued at some \$800 000) which were approved by the Ministers that did not appear in the State and Territory recommendations. These projects are discussed in greater detail in Chapter 4.</p>
The Rejections	In total, 762 recommendations valued at \$51.6 million from the States and Territories were rejected by the Commonwealth. This includes 451 projects above the lowest ranked project funded in each program, valued at \$35.2 million. This calculation excludes Victorian projects where the number and value of rejections ranked above the lowest ranked project funded cannot be calculated because of the way Victoria's recommendations was constructed. Overall, 162 projects valued at \$13.1 million were rejected in Victoria.
The Variations	221 projects (7.0 per cent of projects recommended by the States and Territories) had their funding increased or decreased resulting in a net reduction of \$8.3 million. Most variations were funding reductions.

Source: Environment Australia NHT database and ANAO analysis

(a) The amount approved was \$30.1m less than the funds for these programs appropriated in 1997-98 and \$14.4m less than the notional allocations.

3.10 A review of file records in Environment Australia and DPIE, which included departmental briefings to the Ministers, indicates that most of these variations were initiated primarily by the Ministers, that is, not through any departmental assessments.

3.11 Both Environment Australia and DPIE originally recommended projects that were substantially in accordance with State and Territory priorities. However, the initial recommendations from their Departments were rejected by both Ministers who wanted greater emphasis to projects

with on-ground works and those that involved the community in the implementation of projects (in preference to State and Territory agency projects). However, as mentioned above, this emphasis of the Ministers was greater than expected by stakeholders.

3.12 Ministers clearly have the authority to take executive decisions on all matters relating to the NHT. However, the Departments have recognised the perceptions at the state and regional levels that the Commonwealth did not sufficiently value the community-based assessment process and the efforts of State, Territory and community participants. The States and Territories were particularly concerned about the number of their projects that were rejected. For example, 40 per cent of State and Territory agency projects (valued at \$31.4m) were rejected by the Ministers compared with a rejection rate of 22.5 per cent (valued at \$20.2m) for community projects. Those concerns have been further exacerbated by the Commonwealth's request for 1998-99 proposals before all funds had been received for 1997-98 projects.

3.13 Overall, the ANAO considers that, in the overwhelming majority of cases, the reasons for rejecting or varying State and Territory recommendations were adequately documented by the Departments and related to the published decision-making criteria. For example, the most commonly used reasons in relation to the specific projects examined were:

- could be more reasonably expected to be funded by the States and Territories;
- not sufficiently focussed on on-ground works;
- not fully consistent with NHT program objectives;
- insufficient proponent contribution;
- excessive project funds sought;
- insufficient public benefit;
- minor rounding up of individual project funding; and
- components of projects incorrectly ruled ineligible by the States and Territories.

3.14 While there were some examples where the reasons for decisions could have been better documented, such cases represented only about one per cent of total project approvals. This result is considered to be not unreasonable given the large number of applications and the complexity of the NHT selection process. However, the Departments were able to provide satisfactory oral advice as to the background and reasons for the decisions in all cases examined by the ANAO in relation to project decisions where there was insufficient documentation.

3.15 These findings contrast with the findings, for example, of Audit Report No.9 1993-94 *Community Cultural, Recreational and Sporting Facilities Program*, where there was no record maintained of the reasons for each decision either in the Minister's Office or in the Department.⁶

Conclusions

3.16 The ANAO concluded that the reasons for decisions by the Ministers to reject or vary the recommendations from a State or Territory were, on the whole, adequately documented by the Departments and consistent with the NHT program guidelines. However, it would have been better to more clearly communicate the emphasis the Ministers placed on particular selection criteria at the time of notification to States and Territories. The ANAO notes that suitable approaches have been taken to improve the degree of communication for the 1998-99 funding round.

⁶ ANAO 1993, Audit Report No.9 1993-94, *Community Cultural, Recreational and Sporting Facilities Program*, AGPS, Canberra, p. x.

4. The Rigour of the Decision-making Process

Importance of rigour in decision-making

4.1 Demonstrated rigour in decision-making for financial assistance programs is important as it provides a basis for demonstrating fairness and equity to program stakeholders. Such a systematic and disciplined approach also provides an assurance to the wider Australian community that they can be confident in the integrity of Government administrative processes.

Methodology

4.2 Within the context of the NHT the ANAO examined:

- whether there was evidence of any systematic bias in the distribution of NHT funds; and
- whether there were indications of unjustified anomalies in the administrative process.

Classifying projects by electorate

4.3 Information contained in NHT project applications allows the Departments to determine, subject to certain limitations, the electorates in which projects are located. As is the case for numerous Commonwealth programs, project electorate information is extracted from the program database to inform Members of Parliament of projects approved within their electorates. The ability to determine projects' electorates, however, is limited by the following factors:

- some projects have State-wide applicability (eg. NHT evaluation) and therefore cannot be allocated by electorate;
- some projects cross electorate boundaries and thus cannot be allocated equitably into an electorate (the Departments have classified such projects as 'regional'); and
- the location information on project applications was not of sufficient detail to identify the electorate. (This occurred primarily where projects were located close to electoral boundaries. The Departments have also classified such projects as 'regional'.)

4.4 As a result of the above limitations, the Departments were able to allocate only some 55 per cent of projects into electorates. Such allocations are illustrated in Figures 2 and 3.

Figure 2
State and Territory recommendations by Region/State and political party representing electorate

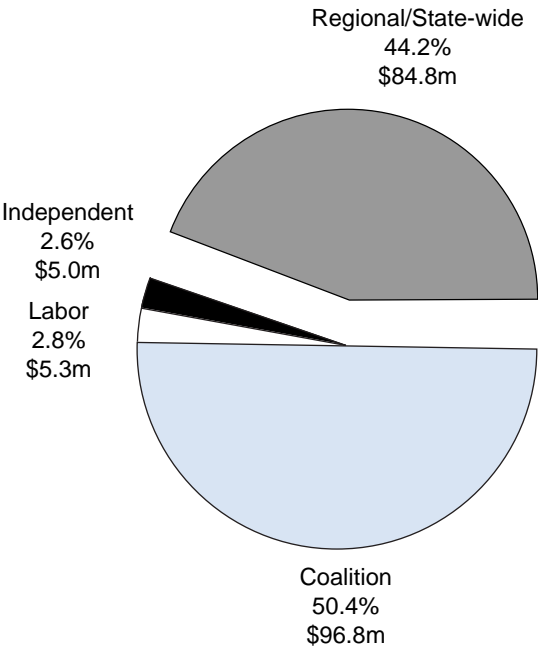
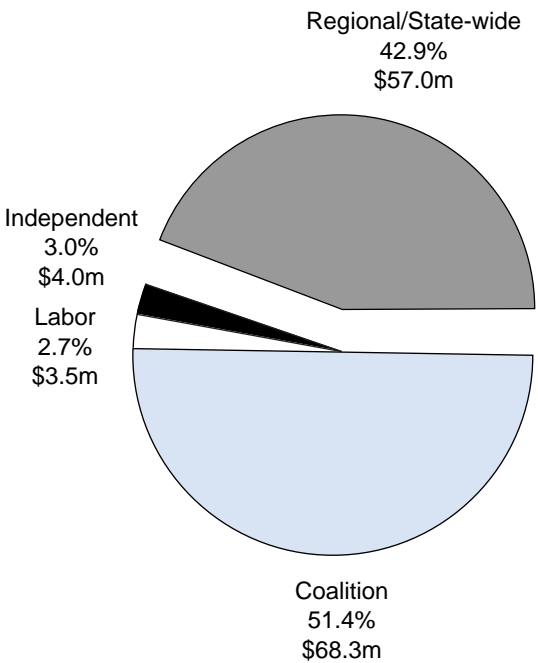


Figure 3
Ministerial approvals by Region/State and political party representing electorate



4.5 On validating a sample of electorates allocated by the Departments to projects, the ANAO found a significant number of errors (ie. projects allocated to incorrect electorates). Departments have recognised that the accuracy of their database of projects and electorates could be improved. Most errors relate to projects located near electoral boundaries. The ANAO is unable to ascertain what affect these errors would have on the distribution of NHT projects across electorates. Nevertheless, the ANAO considers that it would be unlikely for the effect of these errors to materially affect the outcome of the analysis of the distribution of funding.

4.6 If the Departments consider that such information should be collected in order to respond promptly to the information needs of the Parliament, the ANAO considers that it is important to have a valid database of projects that correctly aligns the projects' location to electorates. While it is recognised that information is collected in relation to the location of particular projects, consideration could be given to asking project applicants to specify on their applications the electorate(s) in which projects are located.

The distribution of NHT funds

Distribution on electorate basis

4.7 An analysis of the distribution of NHT funding from the Departments' database shows that 90 per cent of the value of approved NHT projects and 87 per cent of the number of approved projects went to Coalition-held seats. Information in Table 5 was prepared by the ANAO from Environment Australia's NHT project database which covers both DPIE and Environment Australia programs. It illustrates the comparative distribution of State and Territory NHT recommendations and approved funding allocations.

4.8 The apparent heavy weighting in funding allocations towards Coalition-held seats has not been contested by Environment Australia or DPIE. Both the Departments have argued that the apparent weighting of the funding largely reflects the relative number and size of NHT project recommendations from the States and Territories. Table 5 shows that, on average, State and Territory recommendations from Coalition-held seats were 8.4 times greater than for Labor-held seats. Table 5 also shows that average approved allocations per Coalition-held seats were 8.9 times greater than for Labor-held seats.

Table 5**Average value of recommendations and approvals per electorate^a**

Political party	No. of electorates with projects ^b	Average value of State recommendations per electorate (\$000)	Average value of Ministerial approvals per electorate (\$000)	Difference between average recommendations and approvals (\$000)	Percentage difference between average recommendations and approvals
Coalition	74	1309	924	-385	-29.4%
Labor	34	156	104	-52	-33.3%
Independent	5	1006	796	-210	-20.9%
Total	113	948	671	-277	-29.2%

Source: Environment Australia NHT database and ANAO analysis

- (a) This table does not include 1009 State and Territory recommended projects valued at \$84.8m (44.2%) and 747 projects approved by the Ministers valued at \$57.0m (42.9%) classified as either 'Regional' (ie. involves more than one electorate) or 'State-wide' projects which cannot be allocated to a specific electorate.
- (b) Electorates without projects have not been included.

Distribution on project basis

4.9 Tables 6 and 7 illustrate the number and value of projects across political parties. In particular, these tables show that the proportional distribution of project numbers and funding across political parties approved by the Ministers varied little from the State and Territory recommendations. The number of projects approved in Coalition-held electorates (ie. 1464) is 415 less than the number contained in the State and Territory recommendations, whereas the number of projects approved in Labor-held electorates (ie. 141) is 48 less than the number contained in the State and Territory recommendations. The proportion of the number of projects in Coalition-held seats approved by the Ministers increased by 0.1% per cent and decreased by 0.3 per cent in Labor-held seats over that recommended by the States and Territories.

4.10 Table 6 shows that the average value of projects recommended by the States and Territories in Coalition-held seats was some \$51 500 while those for Labor held seats was some \$28 000 - that is, the average value of project recommendations from Labor-held seats was 45 per cent less than those for Coalition-held seats. In addition, Table 6 shows that the average value of projects approved in Coalition-held seats decreased by some \$5000 and by some \$3000 in Labor-held seats compared with the State and Territory recommendations.

4.11 Table 7 illustrates that the proportion of funding approved to projects in both Coalition- and Labor-held seats decreased by 0.3 per cent over that recommended by the States and Territories.

Table 6**Ministerial approvals and State and Territory recommendations**

	State and Territory recommendations by political party ^a			Ministerial approvals by political party ^a		
Political party	No. and percentage of projects	Value and percentage of State/Territory recommendations	Average value per project ^b (\$)	No. and percentage of projects	Value of Ministerial approvals	Average value per project ^b (\$)
Coalition	1 879 (87.0%)	\$96.8m (90.3%)	51 500	1 464 (87.1%)	\$68.3m (90.0%)	46 500
Labor	189 (8.7%)	\$5.3m (4.9%)	28 000	141 (8.4%)	\$3.5m (4.6%)	25 000
Independent	93 (4.3%)	\$5.0m (4.7%)	54 000	76 (4.5%)	\$4.0m (5.3%)	52 500
Total	2 161 (100.0%)	\$107.2m* (100.0%)*	49 500	1 681 (100.0%)	\$75.9m* (100.0%)*	45 000

Source: Environment Australia NHT database and ANAO analysis

- (a) This table does not include 1,009 State and Territory recommended projects valued at \$84.8m (44.2%) and 747 projects approved by the Ministers valued at \$57.0m (42.9%) classified as either 'Regional' (ie. involves more than one electorate) or 'State-wide' projects which cannot be allocated to a specific electorate.
- (b) Figures rounded to the nearest \$500.
- (*) Totalling errors due to rounding

Table 7**Differences between Ministerial approvals and State and Territory recommendations**

Political party	No. and percentage point difference between no. of approvals and no. of recommendations	Value and percentage point difference between approvals (\$) and recommendations (\$m)	Difference between average value per approval and recommendations ^a (\$)
Coalition	-415 (+0.1%)	-\$28.5m (-0.3%)	-5000
Labor	-48 (-0.3%)	-\$1.8m (-0.3%)	-3000
Independent	-17 (+0.2%)	-\$1.0m (+0.6%)	-1500
Total	-480 (0.0%)	-\$31.4m* (0.0%)	-4500

Source: Environment Australia NHT database and ANAO analysis

- (a) Figures rounded to the nearest \$500.
- (*) Totalling errors due to rounding

4.12 Although some 90 per cent of NHT funding went to Coalition-held seats, the ANAO considers that the number of projects and the level of funding approved closely matched the proportion of project recommendations made by the States and Territories.

4.13 The ANAO has noted that the NHT has been designed primarily to tackle environmental and natural resource management problems in rural regions. Also, the model used for the selection of NHT projects tended to favour those regions and catchments that had pre-existing administrative and support structures (such as Landcare groups and Catchment Management Committees) familiar with the submission based approach of earlier Commonwealth environmental programs. Most of these tended to be in rural regions held by the Coalition members of Parliament. Consequently, according to the Departments, long-established regions and catchments such as those in the Murray-Darling Basin and those established through the National Landcare Program tended to submit the most applications and receive most funding allocations. The ANAO notes that both departments have recognised the design problem with the NHT and have taken steps to form additional regional/catchment structures in metropolitan areas of the capital cities for the 1998-99 funding round. In addition, a residual allocation of \$900 000 from the 1997-98 funding round has been reserved to encourage further projects in metropolitan areas.

4.14 The ANAO reiterates that access and equity are very important elements in the administration of Commonwealth programs. This means that Departments must be proactive in:

- the promotion of Commonwealth programs (ie. to ensure that the integrity of Commonwealth access and equity objectives are consistently achieved over time); and
- ensuring that projects are considered on merit in accordance with appropriate criteria as outlined in the program decision-making documentation.

4.15 DPIE has indicated that it considers potential stakeholders in programs administered in DPIE have equal access and proactive initiatives have been pursued to ensure equity. The ANAO accepts DPIE's comment, but notes, however, that DPIE administered programs are targeted primarily to rural regions.

Anomalies

4.16 In the context of this report, the ANAO has defined anomalies as those projects that were approved by the Ministers but were not recommended by the States and Territories.⁷ The ANAO found that the Ministers approved twenty such projects (0.8 per cent of approvals) valued at some \$800 000 (0.6 per cent of approvals). Most of these projects had been incorrectly assessed by the RAPs or SAPs as ineligible. In some cases, these projects were approved following representations to the Minister for the Environment or as a consequence of reviews by the Departments, at the request of the Ministers, of all projects classified as ineligible by the RAPs or SAPs. Anomalies were identified in Queensland, Victoria, Tasmania and the Australian Capital Territory and involved both Coalition- and Labor-held seats. Of the sixteen projects that can be classified by electorate, seven were in Coalition-held seats and nine were in Labor-held seats. The anomalies represented less than one per cent of all project applications not recommended by the States and Territories. A discussion of the ANAO's findings follows.

Queensland

4.17 Four projects approved in Queensland (valued at \$82 268) were not included in the State recommendations. Three of these were Bushcare projects. Two projects were funded following correspondence originating from project proponents to the Minister over their assessment by the State Government. One remaining Bushcare project arose out of discussions between the Minister's Office and Environment Australia. These projects are considered in greater detail in Table 8.

4.18 The remaining project (ie. Mary River Fable Project at \$5170) was approved as part of the Fisheries Action Program administered by DPIE. It had been assessed as a medium priority by the SAP but only high priority projects had been forwarded to the Commonwealth. The project was rated highly by the Queensland Fisheries Technical Advisory Panel. The project had strong community involvement and links with other NHT projects on the Mary River.

4.19 Environment Australia has indicated that, at the request of the Minister, it reviewed all Queensland applications rejected by the State. However, no further project approvals arose from this review.

⁷ Anomalies do not include clerical or administrative errors by the States and Territories, revised or supplementary recommendations by the States and Territories or projects renegotiated between the Commonwealth and the States and Territories for generic activities such as program evaluation.

Table 8
Queensland case studies

Project	Vegetation Management Strategy Implementation - Noosa Shire Case Study (972512)
Proponent	Noosa Shire Council
Funding	Requested: \$51 596 Approved: \$31 298
Electorate	Fairfax (Liberal)
RAP/SAP Assessment	South East Regional Assessment Panel did not recommend funding for this project. The reasons have not been documented.
How Ministerial approval was obtained	The project's proponent wrote to the Minister for the Environment and the Council for Sustainable Vegetation Management in October 1997. The proponent expressed concern over the composition of the RAP and what constitutes 'core business' for local governments and State agencies. The Minister for the Environment indicated to his department that the project had merit and that it 'should be actively considered for Bushcare support'. Environment Australia considered that the project was worthy of funding subject to agreement on the budget .
ANAO Comment	This project appears to meet the eligibility requirements of the NHT Guidelines as it provides 'support for on-ground actions, raises awareness, plans for and monitors vegetation management actions and is consistent with the Regional Framework for Growth Management (SEQ 2001 - RFGM)'. Project has the support of the Local Government Association of Queensland, the local landcare group, the Queensland Farmers Federation and State agencies.
Project	Incentives and recognition for the protection of freehold land for conservation of aesthetic and heritage values
Funding	Requested: \$31 000 Approved \$31 000
Electorate	Leichhardt (Liberal)
Proponent	Cairns City Council
RAP/SAP Assessment	Project rejected by the Northern RAP. Reasons not documented but Environment Australia indicated that the RAP approved a similar project for the Johnson River area and thought that it could not justify funding a similar project in the catchment.
How Ministerial approval was obtained	At the request of the Minister's Office, Environment Australia examined this project. Environment Australia presumes that representations were made to the Minister's Office. Environment Australia examined this project and found it to be worthy of support subject to resolution of funding issues in the out years (ie. 1998-99 and beyond).
ANAO Comment	This project would establish a small local government program within the Cairns City Council to support landholders to enter into conservation partnerships. Most of the land upon which the conservation partnerships are targeted are on/near land on the Interim List for the National Estate. The package could include land tax incentives, rates relief, management advice, supply of native trees and zoning assessments. Environment Australia described the project as 'an innovative way to encourage conservation on freehold land'. This project appears to meet the NHT Guidelines eligibility requirements as it could be considered to be a catalyst for on-ground action.

Project	Nudgee College Wetlands Conservation Plan (972572)
Proponent	Trustees of the Christian Brothers QLD
Funding	Requested: \$204 483 Approved: \$14 800
Electorate	Lilley (Liberal)
RAP/SAP Assessment	This project was rejected as ineligible by the RAP.
How Ministerial approval was obtained	Proponent wrote to the Minister for the Environment seeking support for this project. Personal representations were also made to the Minister by the Member for Lilley. At the Minister's request, Environment Australia examined the project application and found that it was primarily a building and construction project (involving site development, car park, BBQ and toilet block construction, canoe access sites, walking tracks and boardwalks) - activities which are not eligible for funding. However, Environment Australia considered that the project did contain a small element that involved revegetation that could be funded under Bushcare. This element involved 'the identification of flora and fauna, fencing, regeneration of part of the site and the development of interpretive signs'.
ANAO Comment	This project would appear to meet the on-ground works eligibility criteria contained in the NHT Guidelines. However, the ANAO notes that the NHT guidelines also state that 'funding for amenity or beautification planting (for example school grounds landscaping ...)' are ineligible activities. Therefore, ANAO considers that the eligibility or otherwise of such a project would depend greatly on the weighting placed on the different eligibility criteria contained in the NHT Guidelines.

Victoria

4.20 Four projects approved in Victoria (valued at \$412 798) were not included in the State recommendations. One project, valued at \$350 000, not submitted by the State was approved in principle subject to negotiations with the State department over vegetation works in the metropolitan area of Melbourne. These negotiations were still proceeding during the course of ANAO investigations. Environment Australia advised that the project arose as the Minister for the Environment was seeking to increase the level of Bushcare funding in metropolitan Melbourne.

4.21 Three other projects, which were ruled ineligible by the SAP, were approved by the Commonwealth. These projects were valued at \$62 798 and were approved with Bushcare funding in 1997-98. File records indicated that they arose because the Minister for the Environment requested that an assessment be made of all 193 applications in Victoria not recommended by the State.

4.22 Environment Australia, in its advice to the Minister, indicated that the Regional Assessment Panel '*appeared to have misinterpreted the guidelines for these project applications*'. Environment Australia went on to say that '*all three projects would provide immediate and cost effective on-ground Bushcare outcomes in increasing the extent of native vegetation*'.

4.23 A description of each project is set out in Table 9.

Table 9
Victorian case studies

Project	Protection of significant natural estate remnant vegetation (971677G)
Proponent	Woodhouse Pastoral Co
Funding	Requested: \$52 900 Approved: \$52 900
Electorate	Lalor (Labor)
SAP Assessment	Rated ineligible. Reasons not stated but Environment Australia advise that it is probably because the applicant is an individual.
NHT Guidelines	Assistance for on-ground activities by individuals on private land will only be available where there is a clear and substantial public benefit' (Funding for individuals is only available in the 1997-98 round)
ANAO Comment	While on balance the project would appear to be eligible, judgement is required to interpret the extent to which there is a 'clear and substantial public benefit'. The evidence would appear to support the eligibility of the project as Environment Australia has advised that 270 ha of the site is listed on the National Estate, the project is supported by the Victorian Trust for Nature and the site is one of the few remaining relatively large areas of natural vegetation on the basalt plains west of Melbourne.
Project	Dans Reserve Restoration (972295E)
Proponent	Greening Connewarre Inc
Funding	Requested: \$2477 Approved: \$2168
Electorate	Corio (Labor)
SAP Assessment	Rated ineligible. Reasons not stated but Environment Australia advise that it was probably considered ineligible because the reserve is the responsibility of a government agency.
NHT Guidelines	Ineligible activities include activities wholly in national parks or nature conservation reserves on public land gazetted under relevant State legislation. Where activities outside a reserve are integrated with on-reserve activities these will be considered.
ANAO Comment	Because the project involves the fencing and revegetation of Dans Reserve as part of an ongoing project to link the reserve with Lake Connewarre at Hospital Swamp, the project could reasonably be classified as eligible. However, given that the NHT guidelines state that projects which 'replace the individual's or organisation's responsibility for the sustainable management of soil, land, water or vegetation resources under their control' are ineligible, the different judgements on eligibility probably reflect different weightings being given to the criteria in the NHT Guidelines.

Project	Majestic Road Land Stabilisation and Revegetation Demonstration
Proponent	Majestic Landcare Group
Funding	Requested: \$7730 Approved: \$7730
Electorate	Corangamite (Liberal)
SAP Assessment	Rated ineligible. Reasons not stated but Environment Australia advise that it was probably considered ineligible because it was described as a demonstration project.
NHT Guidelines	Fencing will only be funded where it is an essential part of a vegetation activity, part of a small-scale demonstration of on-ground works, or part of on-ground works.
ANAO Comment	The project aims to construct 3 km of fencing and plant 7000 plants along a tributary of Tomahawk Creek over three years. On balance, the ANAO considers that the project is eligible. However this conclusion is dependent upon the weighting given to different criteria and the interpretation of whether fencing is an essential part of the vegetation activity. Environment Australia considered that in this case, there were 'compelling technical reasons for funding the fencing component' - ie. in order to keep out grazing animals.

Australian Capital Territory

4.24 Two projects approved in the Australian Capital Territory (valued at \$42 280) were not included in the ACT's project recommendations. These were the Native Grass Restoration in the ACT Water Catchment (Australian National Botanic Gardens, \$36 000) and the Camp Cottermouth Regeneration - Stage 2 (Cottermouth Landcare Group, \$6280). They were not originally recommended by the SAP because of concerns over the level of community support in the first case, and because it was unclear whether the second project was the responsibility of the ACT Government. Both of these projects were approved by the Minister because of the potential for on-ground outcomes. The Camp Cottermouth project was also regarded by Environment Australia as having community support and consequently, should have been ranked more highly on the assessment criteria. The Native Grass Restoration project also was regarded as a priority by Environment Australia in that grassland is a conservation priority. In addition, the project was to involve a wide range of government, community and private participation.

4.25 Both projects are in Labor Party electorates.

Tasmania

4.26 Ten projects approved in Tasmania (valued at \$265 468) were not included in the SAP recommendations. Six Bushcare projects (valued at \$178 668) were listed in the SAP recommendations that were not recommended by the State. These six projects were relegated to a reserve SAP list, along with several other unsuccessful Bushcare projects. Reserve

projects were considered for funding after the Ministers had approved all eligible projects in the State recommendations. While the six additional projects were generally promoted for funding in order of priority from the reserve SAP list, one project from the SAP reserve list was promoted and funded while another of higher rank was rejected, although Environment Australia considered it to be a 'useful and eligible project'.

4.27 Four National Wetlands Projects (valued at \$86 800) appeared in the Ministerial approval list that did not appear in the State recommendations. After all eligible projects on the State recommended list had been funded, three of these Wetlands projects approved by the SAP – but not recommended by the State – were funded in priority order. The remaining Wetlands project was not recommended for funding by the SAP, but was funded once all eligible projects in the State recommendations and SAP recommendations had been funded. The SAP considered that this project was consistent with the National Wetland Program's objectives and the Tasmanian Partnership Agreement.

4.28 For these Tasmanian projects, five were in Labor-held electorates, two were in Coalition-held electorates, one was regional and two were State-wide.

Conclusions

4.29 The ANAO concluded that some 90 per cent of the value of approved NHT projects and 87 per cent of the number of approved projects went to Coalition-held seats. The ANAO notes that, while there are difficulties in allocating projects to electorates, the Departments' database contains a significant number of inaccuracies in this regard. An ANAO review of the inaccuracies suggests that it would be unlikely for these errors to materially affect the outcome of the analysis of the distribution of NHT funding. Simply put, the apparent weighting largely results because the proportion of the funding and the projects approved for Coalition- and Labor-held seats closely matched the proportion of the funding and the projects recommended by the States and Territories. The proportion of funding approved to projects in both Coalition- and Labor-held seats decreased by 0.3 per cent over that recommended by the States and Territories. The proportion of the number of projects approved in Coalition-held seats increased by 0.1 per cent and that in Labor-held seats decreased by 0.3 per cent over that recommended by the States and Territories.

4.30 Some of the key factors contributing to the apparent weighting of State and Territory recommendations towards Coalition-held electorates and subsequent Commonwealth approvals were:

- the number and value of project applications from Coalition-held electorates were significantly higher than from Labor-held electorates;

- major program components of the NHT (ie. National Landcare Program, Murray-Darling 2001 and Farm Forestry Program) are substantially about sustainable natural resource management which clearly is focussed on rural electorates; and
- the design of the NHT application process for all program components closely followed that developed under the National Landcare Program for primarily rural regions. These regions had pre-existing administrative and support structures which greatly assisted in the number and quality of applications being made.

4.31 The ANAO considers that there is scope to enhance the geographic reach of the programs and seek an increase in the level of biodiversity conservation expertise on state and territory assessment panels in line with approaches being taken by the Ministers and their Departments to ensure that the program efficiently and effectively meets its stated objectives.

4.32 Twenty projects (0.8 per cent of approvals) valued at some \$800 000 (0.6 per cent of approvals) were approved by the Ministers that did not appear in the State and Territory recommendations. They involved both Coalition- and Labor-held electorates. The anomalies represented less than one per cent of all project applications not recommended by the States and Territories. In view of the importance of being seen to treat all applications equitably on their merits, clear documentation is especially important where anomalies occur. The reasons for these anomalies were well documented and, in the main, related to:

- insufficient quality projects on individual State and Territory recommended lists for Commonwealth funds compared with the notional allocation of funds to the relevant State or Territory. In these situations, the Ministers approved higher ranked projects that were recommended by the SAP but not recommended by the State or Territory; and
- projects incorrectly assessed as ineligible by the regional or state and territory assessment panels.

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The Auditor-General

Preliminary Inquiries into the Natural Heritage Trust

Australian National Audit Office

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Canberra ACT
11 May 1998

Dear Madam President
Dear Mr Speaker

The Australian National Audit Office has undertaken preliminary inquiries into the Natural Heritage Trust in accordance with the authority contained in section 25 of the *Auditor-General Act 1997*. I present this report of these preliminary inquiries to the Parliament. The report is titled *Preliminary Inquiries into the Natural Heritage Trust*.

Yours sincerely

P. J. Barrett
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. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Abbreviations

ANAO	Australian National Audit Office
Coalition	combined Liberal Party, National Party and Northern Territory Country Liberal Party
DPIE	Department of Primary Industries and Energy
EA	Environment Australia
Labor	Australian Labor Party
NHT	Natural Heritage Trust
NLP	National Landcare Program
RAP	Regional Assessment Panel
SAP	State Assessment Panel
the Departments	Environment Australia and the Department of Primary Industries and Energy
the Ministers	Ministers for the Environment and Primary Industries and Energy

Part One

Executive Summary

Executive Summary

1. In 1997 the Government established the Natural Heritage Trust (NHT) with an allocation of \$1.25 billion over five years to:

*'... stimulate significant investment in conservation, sustainable use, and repair of Australia's environmental, agricultural, and natural resources ...'*¹

2. Earlier this year, the Leader of the Opposition and some other Members of Parliament raised questions about the allocation of financial assistance approved under the NHT. The Australian National Audit Office (ANAO) had planned to undertake an audit of the NHT in 1999. In the light of the concerns raised, it was decided to undertake preliminary inquiries to ascertain whether the timing of the planned audit should be brought forward.

3. The inquiries focussed on the transparency and rigour of the decision-making process for projects approved for NHT funding. Total funds available from the NHT in 1997-98 were \$186.9 million. Each program forming part of the NHT has its own allocation. The majority of these programs are delivered through a single One-Stop-Shop process. Projects under these programs were assessed by regional and state and territory panels (which were appointed by State and Territory governments), then recommended by State and Territory governments before being finally approved by the Commonwealth Ministers for the Environment and Primary Industries and Energy ('the Ministers'). The programs examined by the ANAO were the National Landcare Program (NLP), Murray-Darling 2001, Bushcare, the National Rivercare Program, the Farm Forestry Program, the Fisheries Action Program and part of the National Wetlands Program (where it was considered through state or territory assessment panels). These programs, which totalled \$163.0 million in 1997-98, are administered by Environment Australia and the Department of Primary Industries and Energy ('the Departments').

4. From some 6000 NHT applications in 1997-98, 3170 projects valued at \$192 million were recommended to the Commonwealth as part of formal State and Territory recommendations. 2428 projects valued at \$132.9 million were approved by the Ministers as at March 1998. In those cases where State and Territory recommended projects were verified by the Departments as to their eligibility, and endorsed by the Ministers without change, the

¹ DPIE & Environment Australia 1997, *National Partnership Arrangements 1997-98: Natural Heritage Trust*, Commonwealth of Australia, Canberra, p. 1.

ANAO considered that this was sufficient documentation of reasons for decisions.

5. Concerns have been expressed about even-handed treatment in that some 90 per cent of the value of approved NHT projects and 87 per cent of the number of approved projects went to Coalition-held seats. The ANAO notes that, while there are difficulties in allocating projects accurately to electorates, the Departments' database contains a significant number of inaccuracies in this regard. An ANAO review of the inaccuracies suggests that it would be unlikely for these errors to materially affect the outcome of the analysis of the distribution of NHT funding. Simply put, the apparent weighting, which is the subject of expressed concern, largely results because the proportion of the funding and the projects approved for Coalition- and Labor-held seats closely matched the proportion of the funding and the projects recommended by the States and Territories.

6. Some of the key factors contributing to the apparent weighting of State and Territory recommendations towards Coalition-held electorates and subsequent Commonwealth approvals, were:

- the number and value of project applications from Coalition-held electorates were significantly higher than from Labor-held electorates;
- major program components of the NHT (ie. National Landcare Program, Murray-Darling 2001 and Farm Forestry Program) are substantially about sustainable natural resource management which is clearly focussed on rural electorates; and
- the design of the NHT application process for all program components closely followed that developed under the National Landcare Program for primarily rural regions. These regions had pre-existing administrative and support structures which greatly assisted in the number and quality of applications being made.

7. The ANAO reiterates that access and equity are very important elements in the administration of Commonwealth programs. This means that Departments must be proactive in:

- the promotion of Commonwealth programs (ie. to ensure that the integrity of Commonwealth access and equity objectives are consistently achieved over time); and
- ensuring that projects are considered on merit in accordance with appropriate criteria as outlined in the program decision-making documentation.

8. Departments are now working with the States and Territories to form additional regional/catchment groups in metropolitan areas to ensure the programs cover a wider geographic spread. In addition, some \$900 000

of the remaining 1997-98 NHT funding has been earmarked for urban bushcare projects in metropolitan areas.

9. In total, 762 applications (24.0 per cent of all project recommendations), valued at \$51.6 million (26.9 per cent), were rejected from the original State and Territory recommendations. 451 of these rejected applications, valued at \$35.2 million, were ranked by the States and Territories above the lowest ranked project approved by the Ministers.² In addition the Ministers varied the funding recommended by the States and Territories for 221 projects (seven per cent of the number of recommended projects).

10. In the overwhelming majority of cases, the reasons for rejections and variations were documented adequately by the Departments. These reasons were related to the NHT guidelines and reflected, *inter alia*, concerns by the Ministers about the number of projects recommended by the States and Territories that:

- appeared to be for activities that could be regarded as core State and Territory responsibilities (40 per cent of State and Territory agency projects valued at \$31.4 million were rejected as opposed to 22.5 per cent of community projects valued at \$20.2 million);
- did not have a sufficient on-ground works focus;
- were not fully consistent with NHT program objectives;
- had insufficient proponent contribution; and/or
- sought excessive project funds.

11. While some project rejections and variations were not well documented, such cases represented only about one per cent of total project approvals. This result is considered to be not unreasonable given the large number of applications and the complexity of the NHT selection process. In addition, many lower priority projects were not able to be funded due to the financial limits of the NHT. Project funding recommended by the States and Territories exceeded the notional funding allocations advised to the States and Territories by approximately \$44.7 million.

12. One of the reasons for the level of variations was that the Ministers placed a higher emphasis on community projects and on those projects with a strong on-ground focus than the various stakeholders expected. State and Territory agencies have now been formally advised of Ministerial priorities for the 1998-99 funding round.

² This calculation excludes Victorian projects where the number and value of rejections ranked above the lowest ranked project funded cannot be calculated because of the way Victoria's recommendations were constructed. Overall, 162 projects valued at \$13.1 million were rejected in Victoria.

13. A further issue within the level of variations noted for the 1997-98 NHT round relates to a number of anomalies - ie. projects being approved that were not included in the original State and Territory priority ranked list of recommendations. Twenty projects (0.8 per cent of approvals) valued at some \$800 000 (0.6 per cent of approvals) were approved by the Ministers that did not appear in the State and Territory recommendations. These involved both Coalition- and Labor-held electorates. The anomalies represented less than one per cent of all project applications not recommended by the States and Territories. The reasons for these anomalies were well documented and, in the main, related to:

- insufficient quality projects on individual State and Territory recommended lists for Commonwealth funds compared with the notional allocation of funds to the relevant State or Territory. In these situations, the Ministers approved higher ranked projects that were recommended by the state assessment panel (SAP) but not recommended by the State or Territory; and
- projects incorrectly assessed as ineligible by the regional or state and territory assessment panels.

14. After considering all of the above factors, the ANAO has concluded that, on the basis of its inquiries, the NHT decision-making process is fundamentally sound in providing transparency and rigour and there was no evidence of systemic bias in the allocation of funds to projects. There is scope, however, to:

- enhance the geographic reach of the programs;
- seek an increase in the level of biodiversity conservation expertise on state and territory assessment panels; and
- more clearly communicate the emphasis the Ministers place on particular selection criteria;

in line with approaches being taken by the Ministers and their Departments to ensure that the program efficiently and effectively meets its stated objectives.

15. Against this background the ANAO will not proceed with a full audit of the NHT at this time. As such, the report is tabled pursuant to section 25 of the *Auditor-General Act 1997*. However, a performance audit of NHT programs will be scheduled to commence in 12-18 months' time when there will be a range of experiences on which to base a more detailed assessment of the performance of the NHT and its administration.