

## The Administration of Major Programs

Australian Greenhouse Office

The Auditor-General  
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# UNDER EMBARGO

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## Background

Climate change, caused by the emission of greenhouse gases, is recognised as a major issue with the potential to cause significant damage to the national and global economy and to seriously affect human welfare and the integrity of natural ecosystems.<sup>1</sup> In 1997, and subsequently in 1999, the Australian Government introduced two major spending packages with a total value of almost \$1 billion. These packages were designed to address the challenges posed by the issue of climate change and to meet Australia's domestic and international climate change commitments. The Australian Government has agreed to 'develop and invest in domestic programs to meet the target of limiting greenhouse gas emissions to 108 per cent of 1990 emissions over the period of 2008–2012'.<sup>2</sup>

Since its inception in 1998, the Australian Greenhouse Office (AGO) has been responsible for the implementation of these two major packages. The agency's mission is to lead Australia's greenhouse action to achieve effective and sustainable results. The AGO seeks, amongst other things, to facilitate projects that maximise cost effective greenhouse gas abatement and reduce growth in greenhouse gas emissions.

The AGO has been subject to several inquiries and reviews since its inception that focused on policy and administrative issues. The objective of the Australian National Audit Office (ANAO) audit was to examine and report on the administrative efficiency and effectiveness of significant programs administered through the AGO. The audit examined seven material programs across both the 1997 and 1999 packages, which accounted for 87 per cent of total program cost estimates.

## Key Findings

### Planning for results (Chapter 2)

Planning is the cornerstone of an economic, efficient, and effective program and is vital to provide a degree of assurance that programs will achieve their objectives.

The ANAO recognises that there are significant technical challenges in implementing programs designed to address greenhouse gas abatement and/or support renewable energy technologies. It is a complex area with a high degree of uncertainty as to whether a new technology or approach will achieve expected results.

The 1997 package was developed to reduce Australia's net emission growth to assist in meeting international commitments.. The 1999 package was largely conceived within the context of negotiations about offsetting the impacts of the new tax system on the environment. The 1999 package was developed within a short timeframe with little input from the AGO prior to the announcement of the program. The absence of a comprehensive risk assessment early in the life of the programs had particular downstream outcomes for two of the seven programs examined. The potential demand for one program valued at \$31 million did not align with initial expectations. Another program, valued at \$75 million involved substantial residual risks to the achievement of its objectives.

For all of the seven programs considered by the ANAO, objectives and performance measures have been established. However, the objectives have tended to be broad with few measurable targets making it difficult to capture and meaningfully report on key program results. Performance measures improved following a review in 2000. The accuracy of reported results has also been enhanced through verification work by the AGO. Nevertheless, in relation to one program, further refinement is needed to provide an assurance that reporting of greenhouse gas abatement is beyond business as usual (BAU).

Program guidelines and applications have been improved since their inception. As well, programs have been subject to subsequent risk assessment. The ANAO considers that the key lesson learned for any future funding assistance programs is that priority must be given to comprehensive risk assessment and management controls at the outset of the development process. If this is not achievable in practice, then certainly as early as possible and before the commitment of any substantial resources.

### **Appraisal and selection (Chapter 3)**

When appraising and selecting project applications, an essential criterion is that assistance provided by the Australian Government will add value by achieving something worthwhile that would not occur without grant assistance. The ANAO considers that adequate documentation is important particularly in providing transparency to support reasons for decisions.

The ANAO found that generally rigorous appraisal mechanisms have been adopted by the AGO. Appraisal is guided by standard templates that are explicitly linked to program objectives and criteria. However, it is essential that arrangements be put in place to ensure there is no repeat of a recommendation to Ministers to approve funding that resulted in a breach of program appropriations, and a recommendation to approve funding for a project that was just weeks from completion.

There was evidence that the selection of projects is transparent and based on merit. For one program, the transparency of the selection process could be strengthened through improved documentation of reasons for decisions. In particular, this could include recommendations from the AGO, as well as an order of merit rating scale weighted according to the significance of the appraisal criteria.

### **Managing and monitoring of agreements (Chapter 4)**

The ANAO considers that formal agreements are a key component in the effective management of grants. Agreements should be supported by controls that link payments to identified milestones and which include adequate monitoring of payments and performance. It is crucial that there is adequate follow-up to determine whether projects and programs are on track and that there is early warning of emerging risks (if any) to the achievement of specified objectives.

The ANAO found that the AGO has a consistent and rigorous approach to managing funding assistance through formal agreements with grant recipients. These agreements reflect input from legal advisers, and provide a rigorous mechanism for managing ongoing risks.

For larger, more complex projects, funding agreements can involve lengthy negotiations. In one program valued at \$400 million, negotiations for four major projects extended over a two-year period without any resolution to this time. The lengthy negotiations reflect the technical challenges involved and the high level of residual risks requiring careful, ongoing management. However, these timeframes pose risks to the timely achievement of program objectives. One option may be to set a deadline for negotiations to be completed with applicants after which funds are reallocated to future funding rounds or alternative 'reserve' projects, where possible.

From the records examined during the audit, the financial management systems in the AGO are sound. The AGO has implemented good practice in making payments progressively against milestones and withholding payments where milestone requirements are not met. The controls could be further tightened by ensuring that milestone payments are linked as closely as possible to anticipated outcomes with a residual amount being withheld until the completion of the project. This would avoid projects meeting milestones but failing to achieve anticipated benefits at the end of the project - which was found in one case. After four years, for the seven programs examined, 71.1 per cent of the original budget estimates has been committed, but only 23.4 per cent has been spent. Original budget estimates have been subsequently revised and extended over a longer timeframe to more closely reflect the expenditure pattern.

Performance monitoring to date has been thorough and given the necessary priority. In some of the major expenditure programs, it is too early to tell whether the anticipated results will be achieved mainly because of the long-lead times involved. However the risks remain significant—particularly as to whether program objectives will be achieved within the planned timeframe. In other lower expenditure programs, project level results are being achieved, although it is too early to assess the extent to which they will contribute to the program's broader objectives.

### **Evaluation and reporting (Chapter 5)**

Periodic evaluation of programs is recognised as good practice to demonstrate that value for money has been obtained and as a source of any lessons learned. Results of evaluations, in conjunction with information on the actual performance of agencies, forecasts of future needs, and lessons learned, should be included in annual reports. This is important as annual reports are the primary accountability document from the agency to the Parliament.

The ANAO found that the AGO has implemented good practice in demonstrating a strong and consistent focus on evaluation across all programs. While noting the sensitivities involved, there is the opportunity to better inform stakeholders of the findings of evaluations. There is also scope to use the findings of evaluations to shape the direction of the Australian Government's Climate Change Forward Strategy that aims to position Australia's climate change response within a 20–30 year timeframe.<sup>3</sup>

Annual reporting to Parliament to date has not provided sufficient information on actual performance against targets, trends and changes over time as well as about significant risks and challenges. As such, there is significant scope to improve the quality of information so that Parliament is better informed of the progress of the AGO in implementing programs of national significance.

## Overall audit conclusion

The ANAO concluded that, on the basis of the seven programs examined, the administration of greenhouse programs focused on abatement or renewable energy has been characterised by substantial administrative challenges.

Administrative processes could have been better focused at the planning stage on comprehensive risk assessment as well as in designing programs with more measurable objectives and targets. The absence of these factors has made it difficult to measure results against program objectives and exposed some programs to risks that could have been better identified and treated in the early stages of the programs. The primary lesson learned is that priority must be given to performance measurement and comprehensive risk management at the design stage. If this is not achievable in practice, then certainly it must be conducted before the commitment of any substantial resources.

Administrative improvements have been put in place to overcome initial shortcomings in planning. Project appraisal and selection has been generally rigorous and based on merit. The AGO has put in place sound and well drafted agreements to manage residual risk at the program level. Monitoring and evaluation have been given sufficient priority. Linking payments to milestones has also assisted in the efficient management of funding allocations.

Nevertheless, substantial risks remain - particularly in terms of the timely achievement of program objectives. Areas for further improvement include refining performance measurement that should include the use of intermediate measures and/or assessments to gauge progress towards longer term objectives. A more consistent approach to project appraisal and selection would also assist in improving the transparency of decision-making. Attention also needs to be given to the timeframes of negotiations over funding agreements. Finally, improvements to performance reporting are necessary to enable Parliament to come to a more informed view on the progress and effectiveness of the AGO in implementing programs of national significance.

## Agency responses

The AGO has generally agreed with the Report and its recommendations and has advised the ANAO of its response to the audit as follows:

‘The Report has found that overall, the AGO has delivered its programs efficiently and effectively. Appraisal and assessment of project applications is rigorous and transparent, there is a consistent and rigorous approach to managing funding assistance, financial management systems are sound and there is a strong and consistent focus on evaluation across programs.

It also noted the significant potential risks in achieving greenhouse gas abatement in complex grant funded projects being implemented over the 2008–12 Kyoto target period. Where issues have arisen in the early stages of a program, the AGO has recognised and addressed the issues with revisions to guidelines and processes aimed at minimising the future risk.

The AGO agrees with the Report’s first recommendation that risk assessments be undertaken in the design and development of new programs, or where this is not possible, as early as possible in the life of the program

The Report shows that by and large, the AGO has been able to apply lessons learned over the life of the programs to continue to improve its practices. This will remain an important feature of the AGO’s culture. The AGO will also respond to recommendations

and suggestions in the Report for further improvements including in the areas of performance and evaluation reporting.'

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- 1 Australian Greenhouse Office, *Corporate Plan 1999 - 2001*, AGO, Canberra, 1999, p.10.
  - 2 The Hon. J Howard MP, Prime Minister, *Media Release: 'Strategic Leadership for Australia'*, November 2002, p.41.
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- 3 In November 2002 the Minister for Environment and Heritage outlined the Australian Government's intention to develop a long-term policy on climate change. This involved consultation with environment organisations, industry and other key stakeholders. The Minister highlighted that the Climate Change Forward Strategy will underpin the future direction of climate change policy in this country. (Media Release, 13 November, 2002).

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