

**Submission
No 46**

**INQUIRY INTO INTEGRITY, EFFICACY AND VALUE FOR
MONEY OF NSW GOVERNMENT GRANT PROGRAMS**

Organisation: Tweed Shire Council

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Tweed Shire Council Submission

RE: Inquiry into the integrity, efficacy and value for money of NSW Government grant programs

In general, we have significant concerns regarding the way grants are initiated, developed and managed at both the state and federal levels. While funding of infrastructure and initiatives for local communities is welcomed, we do not believe the current processes provide efficient or the best use of limited funds for the good of our communities.

The range and availability of funding programs is not conducive to efficient use of the available funds and does not consider the additional costs incurred by Councils when applying for, planning for, and delivering projects; nor the additional costs to operate, maintain and replace grant funded assets.

- The diverse range of funding programs, partners, timeframes and rules creates inefficiencies and confusion at the application stage, for project planning and for project delivery. Each agency seems to have a raft of objectives they are trying to progress through funding of relevant projects. While this approach may appear logical in isolation, the sheer number of funding programs and their aims results in a cacophony of incongruent, conflicting, competing, but also often overlapping and duplicating funding – but each with its own rules, application and assessment processes, project requirements, payment methods and timings, etc, etc.

More coordination and consistency between funding bodies could improve project/outcome synergies and reduce the burden of multiple application processes and funding systems

- Some funding bodies do not seem aware of the constraints councils must work within, and the objectives of many funding programs are incongruent or even nonsensical. For example in recent years a number of funding programs have required that councils have consulted with their communities, have shown that the community wants & needs the project, and have the project shovel-ready, however the project will not secure funding if it is already identified within Council's strategic plans. This application requirement is almost impossible to achieve given councils must consult with the community and determine strategic plans and projects as part of legislated Integrated Planning & Reporting (IPR) processes. If a Council has undertaken the legislative requirements of IPR correctly, then Council resources will be focussed on getting those projects shovel-ready and it is highly unlikely there would be any projects that meet the funding program rules. This results in well-defined projects with community support being unsuitable for funding; while funding is often made available for poorly supported projects with inadequate planning/scoping resulting in higher risks of budget, time and quality problems.

Greater coordination between funding bodies and consistency with other legislative requirements or drivers would result in more of the right projects being selected and improve project delivery outcomes

- The objectives of many funding programs are too narrow and do not enable upfront efficient use of funds to solve broader problems and to reduce or avoid larger costs in the future. An example is where Council has attempted to secure funding to reduce erosion of the Tweed River embankments and protect adjacent infrastructure, farmland, riparian and fish habitat. Implementation of various preventative (rather than reactive) measures to long stretches of the river is required to address these issues cost effectively. However, few funding programs support this type of approach and Council currently only receives funding to protect short lengths of road that becomes threatened by erosion. By reacting to erosion once it is physically threatening infrastructure, limits the remediation options available and increases the cost of treatment. A better approach (in terms of less upfront and ongoing costs, reduced disruptions, and better habitat outcomes) would be to invest now in preventative protective measures to long stretches of the river.

Greater focus on preventative activities & improvements, plus taking a broader range of benefits into account when assessing funding eligibility would result in more cost effective solutions with a greater range of benefits – potentially reducing the funding required into the future.

A greater focus on renewals, upgrades and improvements of existing assets rather than encouraging Councils to accept funding for new assets which they may not have the budget to operate, maintain or replace.

- The focus of many funding programs is on “shiny new things” as opposed to renewing or improving existing assets. Even when the funding program rules allow for renewals, projects that deliver a brand new asset seem to be more successful in securing the funding. The focus on funding of upfront costs often does not take into account whole of life costs (WOLC) and almost never considers or funds any additional costs to Council to operate or maintain the asset over its life. This not only impacts on Council's operating budgets, but also falsely raises community expectations that the new asset or service will be provided perpetually. Unless Council or the funding program has budgeted for asset disposal and replacement at the end of its life, either the community will be disappointed when it is not replaced, other services will be impacted in order to find ongoing funding, or a fresh grant funding program is required (which does not solve the issue but rather postpones it).

A greater focus on prioritising funding based on asset management systems and needs would help councils dealing with infrastructure renewal backlogs and avoid increasing future asset liabilities

Support upgrades and improvements (betterments) to existing assets rather than enforcing strict like-for-like replacements.

- This particularly applies to disaster funding (eg through DRFA) but applies equally across all relevant funding programs. Funding program rules are

often so restrictive that councils are forced to rebuild damaged assets in the same location and to the same standard – in full knowledge that the a future disaster would result in similar asset loss or damage, and similar service disruptions. Under some funding programs, councils may co-contribute to fund the betterments, however that is not always permissible. Even where councils can co-contribute, the unplanned nature of disasters often means that councils have inadequate funding available at the time or need to postpone other planned critical works.

A greater focus on confirming the appropriateness of the original asset and quantifying where betterments are warranted, would reduce the overall burden on council operations and reduce future maintenance, repairs and service disruptions.

Greater autonomy for councils to determine the most appropriate way to spend funds, as long as minimum asset management standards are met.

- Councils with strong asset management processes are well placed to know the best way to prioritise limited funding programs across the asset and service range. Rather than over-prescribing and limiting the types of works funding can be spent on, a far more efficient approach would be to allow appropriately qualified and organised councils to allocate funds on an asset management and IPR basis. An example of where that currently works well is the Federal Assistance Grants (FAG) which are used very efficiently for asset works including repairs, renewals, upgrades and improvements. The funding source is publicised at each site and with each media release and there are still opportunities for politicians to attend openings and confirm benefits to the community.

Greater autonomy for those councils with robust asset management processes would result in more efficient use of limited funds.

Unrealistic program timeframes and exclusions increase the risk of poor project delivery, cost & time overruns, and unachieved objectives.

- The timeframes for funding programs are often far too short – both for the application deadline, and for the project completion date. By contrast, the time for the relevant agency to review applications and announce successful applicants is often disproportionately long.
 - The time between announcement of the funding program and the application deadline is often too compressed for councils to undertake appropriate scoping, planning, design and cost estimating. This often results in poorly defined (and often optimistic) budget and time estimates being included within the application. If the application is approved and funding announced, Council is then bound to deliver the project even if, once more detailed planning is undertaken, the funding turns out to be grossly inadequate.
 - The time for agencies to review and announce the successful funding recipients can often be far longer than the time Council had to submit the application. In some cases it can be almost as long as the time Council has to carry out the design, approvals and construction of the project. The longer the decision making process takes, the less time

Council has to deliver the project by the published deadline (which is usually made public at the time applications are called).

- Works carried out prior to the funding announcement are often not eligible for funding. Therefore, particularly where projects are not already on Council's strategy delivery plan, it is unwise for Council to commit funding to designs or approvals if funding is not available. If external providers are used for these works, under procurement legislation, Council is not permitted to procure services unless funding is available for the works.
 - Delivery timeframes are often unrealistic and do not allow appropriate time for the design, approval and construction. In particular, timeframes do not seem to account for the complexities of local government procurement requirements and planning approvals, nor the construction timing considerations around weather, community or existing delivery program constraints.
- Funding program rules often exclude the funding of crucial resources such as project management and design. The assumption appears to be that Council staff costs should not be paid for through program funding, however this fails to appreciate that Council staff are fully occupied with existing works programs and the addition of grant funded projects requires some sort of additional resourcing to deliver them (either through external service providers, casual hire, or Council staff on term contracts). By not funding these components, the risk of poor project management or poor design work increases significantly because staff have to attempt to find time within their current workloads – which is limited.

More realistic timeframes and funding inclusions would significantly reduce project risks and improve project outcomes.

Specific notes regarding the financial burden the NSW disaster funding arrangements place on medium to large councils in NSW.

Council is generally supportive of improving equity across NSW with the incorporation of the ability to pay principle through a sliding scale based on revenue. However, Council does not support the model as it currently stands for the following reasons:

- The model significantly reduces the amount Council is reimbursed for emergency and restoration works following a disaster. Using the FY2013 figures and assuming Council's rate revenue is approximately \$60M, Council's contribution jumps from \$68,000 to \$811,000. This is a twelve fold increase and is a significant additional financial burden on the Tweed community.
- It is worth noting that the figures above only consider deductions from the approved claimed amount (ie the amount accepted by RMS and PWA) and do not consider other expenses incurred by councils after a disaster; which can be significant. As an example, using the initial estimates from the March 2017 Cyclone Debbie disaster:
 - Total cost of damage to Council assets estimated at \$49M

- Total cost to assets aligned with NDRRA categories estimated at \$33M, but only \$25M claimable through NDRRA funding rules. The proposed threshold deductions would be a further \$450k reduction of the \$25M claimable.
 - Total cost of assets separately or self-insured estimated at \$16M, but only \$8M recoverable through insurance
 - Thus the total shortfall needing to be funded by Council is estimated at \$16.5M which would be further increased to \$17M with the proposed model
- The use of a threshold with a step in the contribution has the potential to create disparities between councils and the agencies reviewing and approving disaster claims. In the case of Tweed, the proposed 0.75% threshold is approximately \$450,000. If the value of the claim is \$450,000, the cost to Council is \$450,000. If the value of the claim is \$451,000, Council will pay \$125,000. This potentially provides incentive for over-estimation of costs by councils and under-estimation by the approving agencies.
 - In regards to the Disaster Mitigation Funding proposal, Council is generally supportive but would like clearer definition as to how monies returned will be made available for improved infrastructure resilience.
 - There is a need to align OEM's approach with other state agencies who are instrumental in ensuring the successful and consistent rollout of the DRFA system:
 - Confirmation of a common understanding of scoping, cost-effective restorations, pre-emptive works, supported approaches, etc (especially from RMS and PWA). The way in which these agencies administer the detailed technical assessment of DRFA eligibility has a significant impact on what damage items are funded and which are not.

A common data management platform that is compatible with standard software tools (such as Reflect and exel) but avoids the need for emailing multiple formats and files back-and-forth as the estimation/review/approval process proceeds

Relevant to Questions 1. (a) (v) and 1. (b) (i)

- Preparing grant applications consumes a lot of Council time and resources.

The requirements and information required by NSW grants programs have generally increased over the years. This sometimes triggers the need for input from external professional to have input into the grant applications. It is understood that some NSW Councils engage external professional writers to prepare grants applications on their behalf. This is leading to a costly grant writing industry which is counterproductive to achieving the best value for public monies.

It is strongly recommended that the NSW Government adopt a two stage approach to all of their grant application process. This would firstly have projects presented as concepts which are then shortlisted. These shortlisted projects would then go forward into a full application. This process would cut down on the resources that need to go into the initial application.

- There is an ever growing concept amongst infrastructure grants for the prospective projects to be “Shovel Ready”. It is assumed by this generalised term that a project has achieved a construction certificate and is ready for civil works to commence.

In real project management terms this would mean that a “Shovel Ready” project has already reached several major milestones which already represent the first stages of capital expenditure for a project. In the development cycle of a capital works project these stages would include;

- Project Conception
- Business Case
- Financial Analysis
- Site Studies
- Preliminary Design
- Development Application
- Architectural Detailed Design
- Civil Design
- Engineering Drawings
- Construction Certificate

It is strongly recommended that the NSW Government consider offering seed funding to suitable capital works projects earlier in the development cycle to help them achieve “Shovel Ready” status. This pre-qualification would also help to short list candidate infrastructure projects in the earlier stages and provide grant managers a list of suitable infrastructure projects in each locality.

- There are several NSW grants programs which currently utilise a Cost Benefit Analysis (CBA) to assist in categorising applications. CBA has proven to be an inapt economic tool subject to manipulation of the input externalities. To Council’s understanding there are no other government grant programs in Australia that use CBA.

Furthermore, the requirement to undertake CBA on potential grant projects has seen some Councils engage external economic professionals. This increases the cost and resources in preparing grant applications.

It is recommended that NSW Government reconsider the use of Cost Benefit Analysis as assessment tool in reviewing grant applications.