

Administration of Grants

Better Practice Guide

May 2002

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Foreword

This Better Practice Guide has been prepared to provide practical assistance to those who may be involved with the planning, project selection, management and review of grant programs within the Commonwealth. It also provides a useful basis for any future audits of grant programs. This edition of the Guide builds on previous editions issued in 1994 and 1997. The ANAO decided to update the Guide in the light of audits of grant programs since that time and to incorporate a number of fundamental changes that have occurred in the public sector environment. These changes particularly affect the accountability framework, performance management and risk management of grant programs and funding agreements.

Among these changes are:

- the introduction of the *Financial Management and Accountability Act 1997* and associated legislation, which substantially changed the Commonwealth's accountability framework;
- the *Public Service Act 1999* incorporating and the Australian Public Service (APS) Values and Code of Conduct;
- the move toward more networked service delivery, which has resulted in a more collaborative approach in the delivery of grant programs;
- the introduction of *A New Tax System* including the introduction of a Goods and Services Tax; and
- greater use of 'one stop' shops for service delivery and on-line applications to improve responsiveness.

In 2000–2001 direct Commonwealth expenditure on grants to the private sector, including overseas grants, was estimated to be \$3.2 billion. Public sector managers have a strong interest in ensuring that grant programs are appropriately designed and well administered to achieve the objectives of Government.

The main focus of the Guide is on the administration of discretionary grants to community organisations selected on the basis of merit. However, the principles outlined in the Guide also apply to other types of grants made to individuals, private sector companies or state, territory or local governments. To a lesser extent, guidance is also provided that may be relevant to those managing procurement including contracts and outsourcing arrangements.

During the revision of this Guide the ANAO consulted widely with Commonwealth agencies involved in the administration of grant programs and the Australian Taxation Office. The ANAO extends its thanks to the officers of those agencies who took part in the consultation and provided input for the Guide.



P.J. Barrett
Auditor-General





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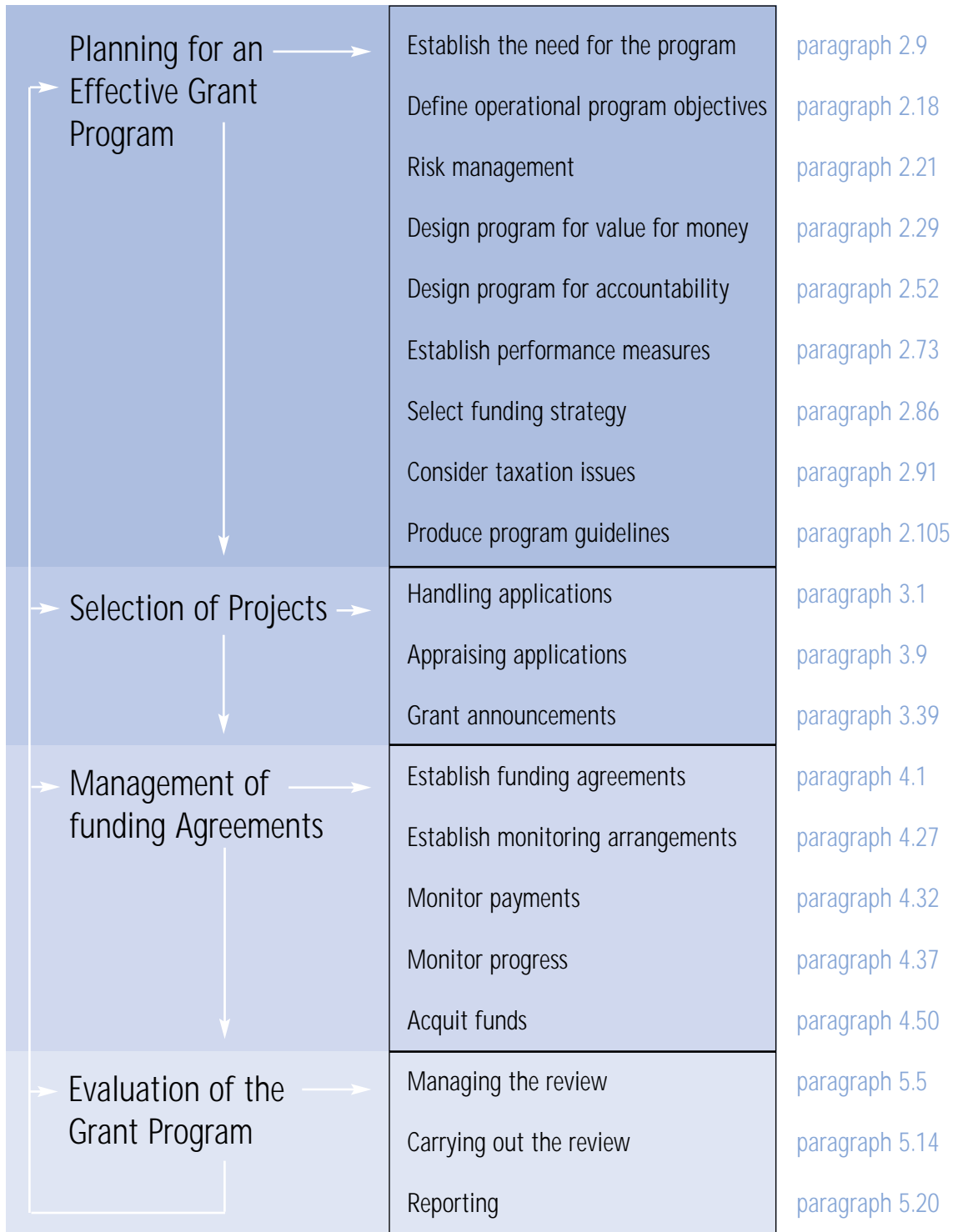
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Glossary

Appraisal criteria	The tests applied to a grant application to ensure that it meets the program's aims and objectives.
Conflict of interest	A conflict of interest arises where a person makes a decision or exercises a power in a way that may be, or may be perceived to be, influenced by either material personal interests (financial or non-financial) or material personal associations.
Evaluation	The process of reviewing the overall efficiency, effectiveness and economy, as well as the appropriateness, of a grant program. This can take place either during routine management review or as the subject of a specific program evaluation.
Funding agreement	<p>A legally enforceable agreement setting out the terms and conditions governing funding determined by the grant-giving organisation. The form of the agreement will depend on the intent of the grant and the degree of control required. The forms of enforceable funding agreements include:</p> <ul style="list-style-type: none">• Deed;• Contract; and• Exchange of letters. <p>In the case of grants to State governments or in networked grant programs, Memoranda of Understanding (MOUs) or a combination of MOUs and legally enforceable agreements may be necessary.</p>
Grants	A grant is a sum of money given to organisations or individuals for a specified purpose directed at achieving goals and objectives consistent with government policy. In a strict legal sense, a grant is a 'gift' from the Crown, which may, or may not, be subject to unilaterally imposed conditions. However, the term is more generally used to include any funding arrangement where the recipient is selected on merit against a set of criteria. The term 'grant' does not include funding of activities relating primarily to the provision of goods and services directly to a government agency. Guidance on these arrangements is provided by the Commonwealth Procurement Guidelines.
Grantslink	A whole-of-government website offering direct links to existing information on Commonwealth Government grant programs. It is accessible at www.grantslink.gov.au .

Monitoring	The process by which the grant-giving organisation establishes whether individual grants made under a program are expended as intended.
More Accessible Government (MAG) Working Group	Established in June 2000 by the Commonwealth Government, MAG comprises 15 Commonwealth agencies working collaboratively to make it easier for communities to access government funding and to streamline grants administration.
Networked grant program	See Networked service delivery
Networked service delivery	Networked service delivery refers to arrangements where two or more agencies / parties / levels of government are working together to achieve a common outcome. Where the arrangements result in the delivery of a grant program it is known as a <i>networked grant program</i> .
Procedural fairness (also known as natural justice).	A principle of administrative law requiring that decision-makers act fairly. That is: <ul style="list-style-type: none"> • the person affected by the decision has a right to be heard; • the decision should be made without bias or the appearance of bias; and • the decision must be linked to the available evidence.
Strategic objective	A statement of the outcomes at the strategic level which the grant-giving organisation seeks to achieve in the short or longer term.
Operational objective	A concise, unambiguous, realistic, outcome-oriented statement of what the program is intended to achieve. Operational objectives should be linked to an agency's strategic objectives and stated in such a way that clearly communicates what is to be achieved, measured and/or assessed.
Performance measure	Performance measures are evidence about performance that is collected and used systematically. In some cases quantified performance measures may not be available and less direct performance indicators may have to be used. Performance measurement is best supported by relevant, accurate, timely, accessible, interpretable and coherent performance information.
Risk management	The systematic application of management policies, procedures and practices to the tasks of identifying, analysing, assessing, treating and monitoring risk.

Figure 1 – Steps in the administration of grant programs





1. Introduction

Purpose of this Guide

- 1.1 The purpose of this better practice guide is to assist grant-giving organisations and others involved in the selection and administration process to:
- plan and manage grant programs and like funding arrangements;
 - establish and manage individual funding agreements; and
 - effectively review or evaluate grant programs.

What is a grant?

- 1.2 A grant is a sum of money given to organisations or individuals for a specified purpose directed at achieving goals and objectives consistent with government policy. In a strict legal sense, a grant is a 'gift' from the Crown, which may, or may not, be subject to unilaterally imposed conditions. However, the term is more generally used to include any funding arrangement where the recipient is selected on merit against a set of criteria. The term 'grant' does not include funding of activities primarily relating to the provision of goods and services directly to a government agency. Guidance on these arrangements is provided by the Commonwealth Procurement Guidelines¹.
- 1.3 The power to give a grant may be unfettered (such as the Commonwealth's power to grant financial assistance to the States under section 96 of the Commonwealth Constitution) or it may be governed by the specific legislation or government policy applying to the program.
- 1.4 The grant-giving organisation may allocate funds directly to individual applicants or to organisations on an individual project basis, or make bulk payments to intermediary organisations. In this latter case, arrangements can be made to allow the intermediary organisation to make decisions regarding specific allocation of funding.

¹ Minister for Finance and Administration 2001. *Commonwealth Procurement Guidelines and Best Practice Guidance*. Canberra 17 September.



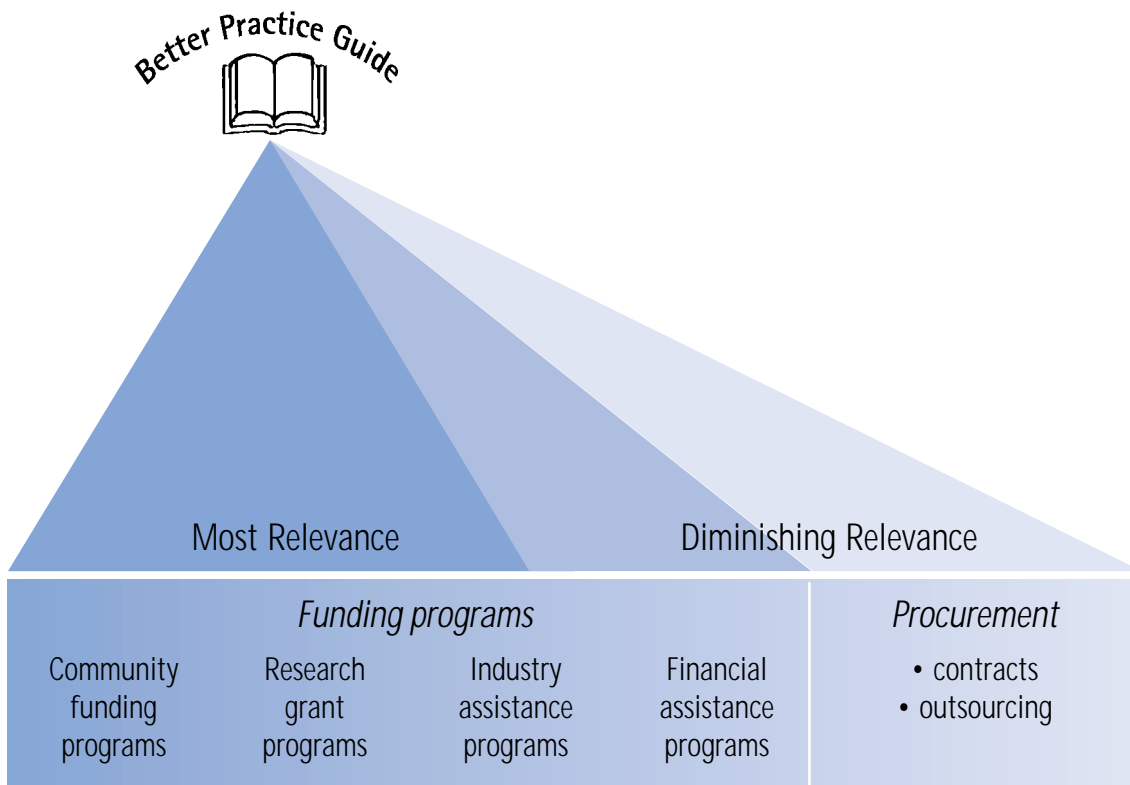
The application of this Guide

1.5 This Guide is most relevant for those funding arrangements that are:

- discretionary, such that a minister or grant-giving organisation has a discretion in determining whether or not a *particular applicant* receives funding and *the conditions that are imposed* (as opposed to non-discretionary where the program or legislation creates an entitlement);
- selected from competing proposals on merit, based on an assessment against pre-specified criteria;
- directed at achieving goals and objectives consistent with government policy; and
- designed for individuals and community groups that are, generally, in the not-for-profit sector (but profit seeking organisations are not excluded).

1.6 Nevertheless, this Guide contains administrative principles applicable to a wide spectrum of circumstances where the Commonwealth funds the activities of others, including payments to state, territory or local governments. The applicability of the guide varies along a spectrum. See Figure 2.

Figure 2 - Relevance of the Better Practice Guide to funding arrangements



- 1.7 This Guide does not seek to cover every detail of the administration of grant programs. The ANAO also recognises that some organisations responsible for grant programs increasingly face resource and time constraints in implementing grant programs. It may not always be possible to address all the issues outlined within the Guide. Where this is the case, an appropriately documented risk management methodology can assist grant administrators to streamline planning, selection, management and review processes to the extent practicable and necessary, having regard to value for money and credible public accountability considerations.
- 1.8 Where the conditions of the grant program are established by legislation and/or government decision, the grant-giving organisation must implement those conditions. Furthermore, once a grant has been established, grant-giving organisations are bound to follow the terms and conditions of the funding agreement rather than simply applying the general principles found in this Guide. Nevertheless, to the extent practicable, agencies should frame any advice to government on establishing and administering a grant program after taking into account the better practice principles outlined in the Guide. Where the actual approach differs from these principles it is good administrative practice to document the reasons for any variation.
- 1.9 This guide was originally published in 1994 and revised in 1997, and drew on a similar booklet prepared by the National Audit Office (NAO) of the United Kingdom titled *Promoting Value for Money from Grants*. This revision reflects ANAO's experience in auditing a number of grant programs. A list of grant and related programs audited by the ANAO is at the Appendix.





2. Planning for an Effective Grant Program

Effective planning is the cornerstone of an economic, efficient and effective grant program. The fundamental aim of the planning process is to ensure that the program will achieve its operational objectives and that these are compatible with the agency's outcomes. Planning sets out the necessary steps and processes, identifies what resources are needed and how they will be used. It also determines relevant milestones and targets and establishes a mechanism to enable the grant administrator to assess and report the extent to which individual projects and the program overall are meeting their objectives. Planning helps ensure consistency between strategic and operational objectives, performance measures and appraisal criteria. This, in turn, maximises the likelihood that those applications that can most effectively contribute to government objectives are selected and funded.

Planning principles

- 2.1 Effective planning is essential to achieve a cost-effective grant program whether it is an ongoing program over many years or a one off program to mark a particular event. It depends on a logical sequence of events in which:
- the need for the program is established overall;
 - the objective is clearly defined;
 - all relevant factors and risks are thoroughly analysed and assessed (through a more detailed needs analysis, cost/benefit analysis, risk analysis etc);
 - appropriate options for delivery (including on-line processing) are developed and compared;
 - the best option is selected and endorsed; and
 - a detailed, well-documented plan for delivery, monitoring and evaluation is produced (for example, program guidelines and Memoranda of Understanding (MOUs) between agencies where networked service delivery is used).
- 2.2 Figure 1 provides an overview of the key factors to be considered in planning, project selection, management and review of grant programs. The remaining chapters of this Guide expand on each phase. In planning a grant program it is just as important to devote effort to the monitoring and review components as it is to the establishment and operation of a program.

- 2.3 Planning sets out the necessary steps and processes to be undertaken, identifies what resources are needed and how they will be used. It also determines relevant milestones and targets and establishes mechanisms to enable the grant administrator to assess and report the extent to which individual projects and the program overall are meeting their objectives. Effective planning helps ensure consistency between strategic and operational objectives, performance measures and the appraisal criteria used to assess applications for funding.

The planning context

The role of agencies in the process

- 2.4 The role of agencies in the planning and establishment of grant programs can vary greatly. The provision of advice to Government is contestable and agencies may not always be called on to provide advice on the planning and establishment of grant programs. Regardless of where advice originates or at what level key decisions are made, the principles outlined in the Guide can assist decision-makers in ensuring that the most effective and efficient use of public monies is made; as well as ensuring that the administration of grant programs is appropriately transparent and accountable.

The Financial Management and Accountability Act 1997

- 2.5 In recent years significant changes have been made to the Commonwealth's accountability framework, heavily influenced by the *Financial Management and Accountability Act 1997* (FMA Act) and associated legislation. The FMA Act provides an accountability framework within which grant programs administered by an agency must conform. Grant administrators need to consider their agency's obligations under the FMA Act when planning and establishing grant programs, and designing monitoring and review arrangements. Chief Executives Instructions should cross reference these requirements, as appropriate, and include the agency's specific policy requirements.
- 2.6 The FMA Act and Regulations impose a number of obligations on Chief Executives of agencies. Specifically:
- *Section 44* of the FMA Act requires Chief Executives to manage the affairs of the agency in a way that promotes the proper use of Commonwealth resources for which they are responsible. 'Proper use' is defined as 'efficient, effective and ethical use'. It is important that grant-giving agencies define the purpose and objectives of grant programs and plan for appropriate monitoring and review mechanisms to ensure the efficient and effective achievement of funding objectives.
 - *Section 47* of the FMA Act requires that the Chief Executive must pursue the recovery of debts. One purpose of a funding agreement is to allow the recovery of unused grant funds and grant funds that have been misused.

- *Regulation 9* of the FMA Regulations requires that public spending:
 - be in accordance with the policies of the Commonwealth;
 - make efficient and effective use of public money; and
 - be approved by someone with the relevant delegation.
- *Regulation 13* of the FMA Regulations requires compliance with regulation 9 before entering into a contract, agreement or arrangement for the spending of public money.

Grant administrators should ensure that mechanisms for assuring the above requirements are incorporated in selection and approval procedures, funding agreements and monitoring arrangements.

2.7 Policies of the Commonwealth that may be relevant for funding agreements includes, but is not limited to, policy relating to:

- workplace relations;
- the environment;
- human rights and equal opportunity;
- discrimination on the basis of race, sex or disability;
- indigenous opportunities; and
- in the case of construction projects, the National Code of Practice for the Construction Industry.

2.8 Commonwealth authorities and Commonwealth companies are not bound by the requirements of the FMA Act and Regulations. They are, however, bound by the provisions of their own enabling legislation and by directions regarding compliance with general policies of the Government, which may be made by their Minister under the provisions of the *Commonwealth Authorities and Companies Act 1997*. The principles of better practice in grant management apply to all Commonwealth bodies.

Establish the need for the program

Has the need for a grant program been thoroughly established?

2.9 In the absence of a specific decision by the Government to establish a grant program, it is important to determine that there is a need for the program and that the program is aligned with the grant-giving organisation's strategic objectives to the extent to which this is possible. A grant program is rarely the only way to achieve a particular strategic objective.

Statutory or other powers may be available to achieve desired outcomes through the considered use of penalties, sanctions and/or concessions. These may include, for example, loans, taxation measures, licences or subsidies.

- 2.10 Even where the Government does take a specific decision regarding the establishment of a program, agencies should still consider whether further needs analysis would assist in targeting the areas or projects most in need of funding assistance, consistent with the Government's objectives. For example, the Government may establish a program to improve regional Australia's access to information technology. In these circumstances, the relevant agency should consider conducting analysis to determine those regions in greatest need or those services needed most.

Alternatives

- 2.11 Before embarking on the design of a grant program, consideration of the alternatives may reveal less costly or more effective means of achieving the required objective. A thorough appraisal of the cost-effectiveness of available options contributes to effective planning.
- 2.12 Loans, or a mixture of loans and grants, perhaps on favourable terms, may be a better economic option, particularly for larger amounts or where commercial activities are being assisted. Although funding organisations may be reluctant to assume the extra administrative burden of a loan program, the cost of such work may well be offset by a reduction in the net cost of the assistance. The opportunity costs incurred in making grants or loans should also be clearly identified during the planning process.
- 2.13 Relief from fees or taxation may be another form of assistance that may give better value for money. Care must be taken in these circumstances that all the implications of the arrangement are fully costed, and the policy ramifications are thoroughly examined with the Australian Taxation Office (ATO) or fee-charging authority.
- 2.14 It is important to examine both the economic and political consequences of various options and ensure that these are consistent with the Government's policies and the Commonwealth's obligations such as those arising from international agreements (such as trade agreements or environmental protocols or health conventions). It is also worth evaluating the impact of the grant program for its possible unintended consequences, whether economic, environmental, social or political. For example, a grant program aimed at a particular line of medical research may appear to give government endorsement to ethical or moral positions, which may be opposed by particular sectors of the community.

Other sources of funding

- 2.15 It is important to consider other sources of funding, which may be available, on the need for the funding. Consideration should be given to the possibility of 'double dipping'. A capital

grant, for example, may be made by a state government and by the Commonwealth but effectively be used to pay twice for the same facility.

2.16 When designing programs, grant administrators should also be alert to the possibility of cost shifting between different levels of government. Cost shifting occurs where, for example, the Commonwealth funds activity that should be funded by a state or territory government. There are a range of steps that can be taken to minimise opportunities for cost shifting. These include:

- specifying the types of payments or projects excluded from funding in any agreements between state governments and the Commonwealth Government;
- seeking more definitive information on specific state government policies and directions; and
- seeking state government assurance that the program funds sought will not be used to fund activities that would normally be funded by a state government.

2.17 In addition, grant administrators should consider whether the mix of public or private benefits resulting from the funding is appropriate. An assessment of the private and public benefit as part of the appraisal of applications will minimise the risks of inappropriate or unintended outcomes.

Define operational program objectives

Have the objectives of the program been clearly documented and communicated to all stakeholders?

2.18 Grant programs should operate under clearly defined and documented operational objectives. The operational objectives should be clearly linked to the outcomes set by government for the grant-giving organisation. They should be authorised or endorsed by Ministers, Board members or senior officials, whichever is appropriate. The objectives should then be communicated to administrative staff through the development of program guidelines and to potential applicants through program information. The more specific the objectives, the easier it is to develop selection criteria, limit wasted applications and develop an appropriate performance information framework.

2.19 Operational objectives for the program should include quantitative, qualitative and milestone information or be phrased in such a way that it is clear when these objectives have been achieved. Adequate information will then be available on which to base future decisions for continuing or concluding the program. The operational objectives of the program should be restated regularly and whenever changes are made to the program.

Are the program's operational objectives consistent with the organisation's strategic objectives?

2.20 Commonwealth funds are appropriated to agencies for the purpose of achieving outcomes specified by government. Agencies should specify and manage their outputs and administered items with a view to maximising their contribution to the specified outcomes. Carefully prepared, well-defined operational objectives help ensure that outcomes of the program will be consistent with the grant-giving organisation's outcomes and outputs framework. Objectives should be concise, outcome-oriented statements of what the program is intended to achieve and clearly linked to the achievement of the agency's outcomes. Program objectives incorporating milestones for achievement should form the basis for performance reporting.²

Risk management

2.21 Grant administrators who adopt a documented risk management approach during the planning stage have an opportunity to maximise the social and economic benefits of the program while reducing the probability and/or consequences of risks associated with grant programs. An appropriately documented risk management methodology can assist grant administrators to streamline planning, implementation, monitoring and review processes to the extent practicable and necessary. Ultimately, the decision to focus on the essentials rests with the grant administrator and should be based on a well-documented, thorough and careful risk identification and assessment.

2.22 Risk Management is an now integral part of advancing reform in the public sector³ and is vital to the efficient and effective achievement of government objectives. The Australian/New Zealand Standard, AS/NZS 4360:1999 *Risk Management*, defines risk management as:

*the culture, processes and structures that are directed towards effective management of potential opportunities and adverse effects.*⁴

2.23 Structured risk management incorporating a risk management plan subject to regular update encourages:

- more effective decisions;
- more effective delivery of public sector programs;

² ANAO/Finance Better practice Guide *Performance Information Principles* contains further information on defining objectives (pp 6-7). The ANAO Publication *Performance Information in Portfolio Budget Statements – Better Practice Guide*, also provides useful guidance on the establishment of appropriate performance information for management and accountability purposes.

³ Standards Australia 1999 *Guidelines for managing risk in the Australian and New Zealand Public Sector* (HB143:1999), Standards Association of Australia, Sydney.

⁴ *ibid.*

- more effective allocation of resources;
- a high standard of customer service;
- creativity and innovation in management practice;
- improved capacity to manage in the face of competing objectives;
- flexibility in meeting objectives;
- transparent decision making⁵; and
- the effectiveness of grant expenditure through:
 - identifying business and financial risks;
 - assessing the significance of and prioritising risks according to relevant criteria;
 - identifying processes required to minimise extreme, high and medium risks to acceptable levels; and
 - ensuring there is appropriate risk awareness and staff training.⁶

2.24 Risk management focuses on maximising the value for money of grant expenditure through minimising adverse impacts by identifying and treating potential risks. In the absence of formal risk assessments, which link to organisational business plans, strategies, performance information and related review processes, it is difficult for grant administrators to be able to assure their Chief Executive Officer (CEO) that resources are deployed in an efficient, effective and ethical manner.

2.25 The Australia/New Zealand standard and *Guidelines for managing risk in the Australian and New Zealand Public Sector*⁷ contain more detail on the process of managing risk than can be included in this Better Practice Guide.

2.26 Specific risks to grant programs could include:

- the possibility of 'double-dipping' (that is, grant recipients being able to obtain grant funding for the same project purpose from more than one source);
- the effect of partial or insufficient grant funding on the viability of projects;

⁵ Standards Australia 1999 *Guidelines for managing risk in the Australian and New Zealand Public Sector* (HB143:1999), Standards Association of Australia, Sydney.

⁶ ANAO Report No. 1 of 2001/2001 *Control Structures as part of the Audits of the Financial Statements of Major Commonwealth Entities for the Year Ended 30 June 2001*.

⁷ Standards Australia 1999, op.cit.

- fraud or misrepresentation;
- breaches of privacy or security of on-line application systems;
- grants being awarded to ineligible individuals/organisations or organisations which may not be able to complete a project effectively;
- grants being awarded for projects or activities which are inconsistent with grant program objectives;
- use of grant funds for purposes contrary to the terms and conditions of the grant;
- changes in the status/competence of the recipient which could adversely affect their ability to carry out or complete relevant project work;
- heightened sensitivities in the lead up to elections;
- pressure to implement programs urgently;
- individuals or organisations being treated inequitably in appraisal of applications and awarding of grants;
- grant programs not contributing to achievement of the strategic objectives of the funding organisation;
- incremental and undocumented changes in interpretation of grant program objectives or guidelines over time;
- actual or perceived conflicts of interest;
- unapproved variations to projects during the period of the grant; and
- shared accountabilities.

Appropriate strategies and controls

2.27 The Standards Australia Guidelines for managing risk in the public sector identify five strategies for the treating risks.

- Accept the risk and leave it untreated.
- Avoid the risk by choosing a different course of action.
- Treat the risk, bearing in mind there is a trade-off between the cost of the treatment and the benefit from the level of reduction in the risk achieved.
- Transfer the risk to the grant recipient – The appropriateness of transferring the risk needs to be considered in terms of the capability of the recipient to manage the risk. In general,

the party *best equipped to manage the risk at least cost should accept the responsibility*. Neither party gains from any attempt to naively transfer risk – the better approach is to decide on the most beneficial allocation of risk.⁸

- Retain the risk. – Sometimes risks must be retained following risk reduction measures or because of other reasons that require them to be retained by the public sector organisation.

On going risk management

2.28 Risk management is not a static ‘once only’ activity. Risk management can be loosely divided into two categories, the preventative stage where risks are treated to prevent their occurrence and the on going management stage where the consequences of any emergent risks are mitigated. Risk management is, therefore, best supported by a sound performance information system during the grant management stage that focuses on continuously identifying and treating emerging risks.

Designing the program for value for money

Does the program conflict with or duplicate other funding sources?

2.29 All possible sources of funds, including those provided by other public sector and private resources should be taken into account when designing a grant program. If possible, map the relationships with other programs to determine the synergies and possible overlaps. The aim should be to provide an appropriate level of funding in both the short and longer term. Sometimes identification and promotion of existing funding from alternative sources may avoid the need for a grant program or provide opportunities for joint funding arrangements that are more effective in achieving government outcomes. The opportunity to complement other programs should not be disregarded.

2.30 The Department of Finance and Administration (Finance) established the Discretionary Grants Central Register in 1997-98 as a central data base containing individual grants awarded by Portfolio Ministers. The database enables cross-portfolio reporting and analysis by Finance and is an important tool for assisting Commonwealth agencies to assess grant applicants in order to eliminate any possible ‘double dipping’. The database does not include certain grants, such as:

- payments directly associated with the provision of Government services by contracting out;
- grants to other Government agencies and overseas aid organisations;

⁸ Barrett, Pat AM, *Dealing with risks to ensure greater effectiveness*, presentation to IIR Conference *Risks in Outsourcing in the Public Sector*, 1 May 2001.

- various income support and emergency payments; and
- grants to educational and medical research institutions.

2.31 The Commonwealth has established a 'whole-of-government' web-site - Grantslink. As well as offering direct links to Commonwealth grants programs that are available to community groups and individuals, the web-site provides grant administrators with access to information on other programs and the opportunity to identify possible opportunities for joint funding. The web-site can be found at <http://www.grantslink.gov.au>. Further information on other grant programs can be obtained by contacting relevant agencies directly.

Have all agency administrative support costs been identified?

2.32 The main costs of a grant program are the grant funds paid together with the cost of the administrative support for the program. It may be difficult to assess the administrative costs or the likely demand for grant funding, since this will depend on the extent of publicity, number of applications, terms of assistance, monitoring and review requirements, etc. Estimates should be qualified with a clear statement of the assumptions or measures on which they are based. Administrative costs, including the costs of appraisal, monitoring and evaluation must be effectively estimated and captured if grant programs are to operate within budget.

2.33 There is no apparent benchmark for the ratio of administrative costs to program costs. Costs observed in audits of grant programs range from as low as 1 percent to as high as 35 percent. The administrative costs of any grant program will vary according to a number of variables as follows:

- Small programs will have a higher proportion of fixed costs than large programs, which will raise the proportion of administrative costs to program funds.
- The risks of individual projects or programs may require more costly risk treatments including closer monitoring. For example, quantity surveyor or similar advice should be considered when appraising applications for major capital grants. Grants for commercial or quasi-commercial projects may require specialist business advice.
- Where grants are delivered through devolved or networked structures the administrative costs of all the administering organisations need to be considered.

2.34 Insufficient administrative resources to manage grant programs increase the risk that the program's objectives may not be achieved in an efficient, effective and timely manner. Furthermore, a failure to identify and monitor the actual administrative costs of a grant program creates problems for the accountability and transparency of the program and frustrates effective planning and continuous improvement of like programs. On the other

hand, the application of too much administrative effort is not an efficient use of funds and could divert expenditure away from the effective achievement of the objectives of the grant program.

- 2.35 Agencies should identify the administrative costs of a grant program, and conduct and document an assessment of the risks associated with a lack of adequate funding for program administration costs. In addition, performance indicators should be developed to ensure the continued measurement of these costs and they should be reviewed on a regular basis to ensure programs are being delivered in the most cost effective and efficient manner. It is also necessary to consider the administrative arrangements and cost implications of the program for the grant recipients. For example, will funding for capital projects create pressure on maintenance and other revenue costs? Sometimes this may have secondary effects on the ability of grantees to carry out their project in the longer term. Conversely, will the initial investment produce economies in running costs? Are the administrative arrangements overly resource intensive and, do they detract from performance, rather than add value?

Options for on-line processing

- 2.36 On-line application, appraisal and management systems have the potential to streamline the application and selection process, reduce administrative costs and increase the transparency of grant administration. On-line systems exist that allow:

- potential applicants to test their eligibility;
- applications to be made, assessed and approved on-line;
- the preparation of funding agreement templates;
- payments to be approved and linked to financial management information systems;
- progress report milestones to be flagged electronically and linked to progress payments; and
- the generation of management information for evaluation and accountability purposes.

Agencies should consider the cost-effectiveness of such on-line systems early in the planning process.

Have administrative responsibilities for the program been agreed?

- 2.37 It is important to clearly define the roles and responsibilities for all parties involved in the program, including Ministers and their staff, where relevant. All those involved in the selection of successful applications should be adequately trained and basic procedure instructions should be available before processing the first applications. These safeguards are particularly important if grant administration is devolved to regional offices or across

agencies or involving different levels of government or other organisations external to the Commonwealth, where competing demands on staff time and scarcity of expertise may lead to variations in the standards of appraisal and administration.

- 2.38 It is particularly important to agree the administrative responsibilities where networked service delivery arrangements are contemplated. A robust governance framework, which clearly defines roles and responsibilities of the various participants, facilitates accountability for separate and joint activities as well as generation of required outputs and outcomes, is essential.
- 2.39 There may be a risk to achieving value for money if insufficient time is allowed for establishing a program properly before it 'goes live'. In these circumstances adopting risk management strategies will allow grant administrators to prioritise key tasks to ensure that important accountability requirements and controls have been adequately addressed. In general, networked delivery arrangements require a longer lead-time to organise and put in place.

Have all interested parties been consulted to identify opportunities to co-operate, and identify and resolve any conflicting objectives or duplication of effort?

- 2.40 Determine to what extent the operation of the program may interact with programs run by other bodies. Other bodies can include other Commonwealth, state or local government authorities, private trusts and foundations or national or state coordinating organisations. Your grant program may have similar objectives to those administered by bodies at different levels of government, Commonwealth, state and local. On the other hand, your grant program, while having different objectives to other programs, may target a common recipient. In either case, related programs and agencies at all levels of government should be identified and consulted with to ensure that conflict of objectives / outcomes and duplication of effort are avoided and outcomes are achieved effectively and efficiently. The objective of co-operation should be to provide seamless access to potential recipients while ensuring appropriate transparency and accountability.
- 2.41 The complexity of some programs and the fact that organisations may have competing objectives and priorities makes it important to strike the right balance and watch for 'flow on' costs and communicate effectively with other stakeholders to minimise any adverse effects and misunderstanding. Remember that programs can also work together to good effect. The risk of 'double-dipping' noted earlier should be assessed during planning.
- 2.42 Few grant programs are entirely new. Often useful lessons can be learnt from the experience of other parts of your agency, other government agencies or from non-departmental public bodies running similar programs. Coordinating agencies may be able to provide relevant advice in this area. (In June 2000 the Commonwealth government established a More

Accessible Government (MAG) Working Group. This has involved representatives from 15 agencies working collaboratively to make it easier for communities to access government funding and to streamline grants administration.

- 2.43 When developing new grant programs or modifying existing programs it is important to seek stakeholder input. The Commonwealth often undertakes consultation processes to find out the views of key stakeholders. To make it easier to find out the community feedback received during these consultations the Commonwealth is establishing a consultation register. A consultation register allows Commonwealth agencies and their program areas to research details of past consultations across the Commonwealth. When Commonwealth agencies go out to consult they are encouraged to complete a short proforma with details about the consultation to be placed on the central electronic registry. For details on accessing the Consultation Register contact the More Accessible Government Section on mag@dotars.gov.au.

Networked delivery of grant programs

- 2.44 Governments are increasingly expecting the public sector to better coordinate efforts to achieve the Government's policy objectives. This may take the form of networked service delivery where two or more agencies / parties / levels of government work together for a common outcome. Unfocussed and uncoordinated programs waste scarce resources, confuse and frustrate stakeholders and limit overall program effectiveness. The development of effective working relationships with stakeholders is, therefore, an important element in a soundly functioning administrative framework and can help to identify, overcome, and even avoid, fragmentation and unnecessary overlaps in government programs. As the Prime Minister has stated:

A particular challenge for the public service is the capacity of departments to successfully interact with each other in pursuit of whole-of-government goals and more broadly, for the entire Service to work in partnership with other bureaucracies, with business and with community groups as resources and responsibility are devolved closer to where problems or opportunities exist.⁹

- 2.45 Agencies should consider the opportunities and impacts of networked service delivery as part of planning grant programs. It is equally important to explore opportunities to co-ordinate the delivery of grant programs across multiple agencies and levels of government to maximise outcomes through joint funding arrangements. Community organisations often apply to a

⁹ Howard MP, The Hon. John, 2001. *The Centenary of the APS Oration*. Address to the Centenary Conference of the Institute of Public Administration Australia. Canberra, 19 June, p.5.

number of sources of funding. It is worth trying to identify opportunities for joint funding while taking care to avoid 'double dipping'. There may be improvements in efficiency and effectiveness through more collaborative or partnering arrangements with other government agencies or the private sector.

2.46 Coordinating the seamless delivery of grant programs as part of broader networked strategies can be quite difficult. Where there are barriers to the free flow of information, ideas and creative energy, organisations risk becoming rigid and inefficient. Developing networked service delivery arrangements can improve the effectiveness and efficiency of the delivery of grant outcomes to the community. In such arrangements, where there is a joint responsibility for overseeing and implementing programs across (possibly) a mix of public and private sector bodies, a robust governance framework, which clearly defines roles and responsibilities of the various participants is required. Such an approach can greatly assist in maximising program outputs and outcomes as well as contributing to the accountability of separate and joint activities.

2.47 Networked service delivery requires agencies to consider:

- mapping of program boundaries and gaps;
- managing relationships between the various stakeholders;
- defining and documenting, through MOUs, the joint and separate agency objectives;
- whether expenditure is still within the boundaries of the purposes for which funds were originally allocated; and
- appointing a 'lead agency' to take responsibility for the overall management of the joint program.

Case Study 1 - An example of networked delivery of a grant program

The Natural Heritage Trust (NHT) consists of a suite of environmental and natural resource management programs. The trust is managed by way of a partnership or networked service delivery arrangement between mainly community organisations and Commonwealth, state and territory Governments. Networked service delivery poses challenges for the selection, monitoring and evaluation of projects.

Handling Applications - A One-Stop-Shop administrative process has been developed that handles the majority of applications for funding. The One-Stop-Shop process generally involves a single application form, a single assessment process (through regional and state assessment panels) and a single evaluation process. This has the advantage of utilising state/territory and regional expertise (through state, regional and technical assessment panels) while streamlining the process from the applicants point of view.

Distributing Funds - The NHT makes use of direct grants and devolved grants. Devolved grants are used to fund regional strategies that involve a large number of land holders, for example fencing and restoring a corridor along a river or revegetating an important salinity recharge zone. Where regional strategies satisfy certain conditions the Commonwealth may devolve the responsibility for supervising the implementation of on ground works to regional or catchment based organisations. The body receiving the trust funding will provide individual grants to participating landholders.

Governance Issues - A crucial instrument in the delivery of networked programs, particularly devolved grants, is a clear and comprehensive agreement. The NHT Partnership Agreements define the respective roles and responsibilities of the Commonwealth and the States and Territories. The Commonwealth retains the responsibility for high level monitoring, evaluation and reporting on the performance of programs and activities at Trust and program levels. The States/Territories are responsible for monitoring and evaluating the performance of NHT programs and projects in their state/territory and report to the Commonwealth on program outcomes. The state/territories' roles included the collection and reporting of data consistent with performance indicators. Commonwealth agencies are also involved at the project level through the consideration of continuing projects requiring ongoing funding.

Have basic rules been set on eligibility, the scale of assistance and the conditions of support?

2.48 Care should be taken to ensure that the rules of the program:

- are simply expressed and clear in their intent;
- are effectively communicated to all stakeholders;
- contain necessary assurance controls;
- are consistent with, and promote, program and departmental objectives; and
- include provision for regular monitoring and evaluation.

2.49 Although prime responsibility rests with management there may be benefits in obtaining independent advice, perhaps from internal auditors or legal advisers. It may also be useful to consider testing program information and guidelines for 'understandability' with relevant client groups. As well as being understandable, guidelines need to clearly inform potential recipients that the Commonwealth has terms and conditions that recipients will need to meet during the life of the project (e.g. financial and performance reporting).

2.50 Criteria for eligibility should be straightforward, easily understood and effectively communicated to potential applicants. This helps to exclude ineligible applications or applications that have little chance of success that can otherwise result in a significant additional administrative cost.

2.51 Special attention should be given to targeting grants toward priority groups or areas. It helps if eligibility criteria are robust and up to date. For example, if target groups have been defined using ten-year-old census data, this may not reflect current trends.

Designing the program for accountability

Does the plan comply with legal and government requirements?

2.52 Ensure that the program conforms to the requirements of the FMA Act and Regulations and Finance Minister's Orders.

2.53 The requirements of administrative law need to be considered early in the planning process. In particular, the design of the program should reflect the needs of procedural fairness, privacy and anti-discrimination legislation, Freedom of Information legislation, and government requirements for an effective fraud control plan. Information on fraud control is contained in the *Commonwealth Fraud Control Policy and Guidelines – Consultation Draft No.2 – April 2001*.¹⁰

¹⁰ Available on the Commonwealth Attorney-General Department's web site – (www.law.gov.au/agh/commprot/crjd/lecd/fcpconsultdraft2.htm).

2.54 Some grant-giving organisations are beginning to depart from the ‘application-driven’ approach to a more tailored case-specific targeting of funds. This strategy generally requires a fairly detailed specification of project parameters, which potential recipients then bid against. This allows agencies to assess the most suitable organisation(s) to undertake the given tasks, rather than select from a variety of proponents of possibly quite diverse tasks. Identifying and approaching suitable individuals, organisations or groups with a view to carrying out funded project work can further target this approach. Where this is the case, care should be taken to ensure that the arrangements comply with legal and government requirements. Grant administrators should also be alert to the general requirement for transparency and accountability when using these arrangements, especially if they are dealing with organisations that are commercial in nature. This is best achieved by clear documentation of criteria, processes and decisions. The over-riding requirement is to ensure value for money for Commonwealth expenditure consistent with the Government’s overall objectives.

Have the Government’s access and equity provisions been complied with?

2.55 Government access and equity strategies are aimed at ensuring that government services meet the particular needs of users and achieve intended outcomes for them, irrespective of their cultural and linguistic background. The *Charter of Public Service in a Culturally Diverse Society*¹¹ asks Commonwealth agencies to ensure that they identify and address language service issues relevant to their function and the type of service they provide. For instance, grant-giving agencies are expected to make provision, within their grant programs, for language service needs such as translating and interpreting.

2.56 Similarly the *Commonwealth Disability Strategy* provides Commonwealth organisations with a framework to help them develop and deliver policies, programs and services which are accessible for people with disabilities. Information about Commonwealth programs should be provided in accessible formats for people with disabilities.

2.57 It is important that prospective users of the program understand their rights and have the opportunity to influence the design and delivery of the program. Grant administrators need to ensure that applicants are not disadvantaged as a result of ethnicity, disability, culture, demographic or other factors irrelevant to the selection criteria. Access and equity considerations are an essential part of program design, implementation and evaluation. In particular grant administrators should:

- adopt best practice in diversity management; and

¹¹ The Government’s access and equity strategy has been developed in terms of a *Charter of Public Service in a Culturally Diverse Society*. The *Charter*, the *Charter* Performance Management Framework, other diversity management tools and Australia’s multicultural policy are available at: www.immi.gov.au

- both address barriers and take up opportunities presented by Australia's cultural diversity.

Information about the community that the grant will serve

2.58 Statistical information on the ethnic composition of communities throughout Australia can be found on the Internet at www.immi.gov.au. This resource can help grant-giving organisations to identify their potential translating and interpreting costs, as well as encourage them to consider tailoring their service to meet the cultural needs of their community.

2.59 Statistical information on the incidence and prevalence of disabilities within the community can be obtained from the Australian Bureau of Statistics. Additional information on where to obtain information in accessible formats can be found on the Internet at www.facs.gov.au.

Other measures of equitable distribution

2.60 In recent audits of grant programs, the ANAO has put increasing emphasis on the geographic distribution of certain grant programs as a measure of equitable distribution and as an indicator of party-political bias in the distribution of grants. Obviously, the objectives of some grant programs may limit geographic distribution as a measure. For example, a program designed to provide housing for inner-city 'street kids' may be limited to urban areas or a program to tackle salinity on farms is unlikely to attract large numbers of applications from urban areas. Another measure frequently used is the distribution according to electorate, including safe and marginal seats. Grant administrators should be aware that geographic and political distribution of grants may be seen as indicators of the general equity of the program.

Is there adequate provision for recording reasons for decisions?

2.61 All administrators of grant programs, whether they are bureaucrats or other parties, are vulnerable to complaints of inequitable treatment, political and other forms of patronage or bias. The design of the grant program should ensure that decisions in relation to the approval or refusal of applications for grants are transparent and well documented. A transparent and systematic appraisal process assists in informing decisions and enhances confidence in the selection process and program outcomes for both program stakeholders and the public. This can assist officials and the Government in promoting the benefits of its program and, at the same time, demonstrating commitment to public accountability and providing the necessary assurance to the various stakeholders involved that public funds have both been spent for the approved purposes and are achieving the best possible outcomes.

2.62 The criteria and basis for recommendations and decisions at all stages of the grant process - including appraisal and approval - must be effectively documented. Appraisal forms or some other systematic process should provide for the recording of reasons for decisions and recommendations to demonstrate the process has been rigorous and transparent. They should be maintained consistently as part of the official record, in accordance with National Archives

of Australia standards and guidelines, and be accessible under Freedom of Information provisions.

- 2.63 Individual Ministers or groups of Ministers may make decisions as to the selection of applicants. Where individual Ministers or groups of Ministers make administrative decisions or judgements involving the meritorious selection of one application over another, documentation, recording the appraisal process and the reasons for selecting particular applications would aid program transparency and public accountability.
- 2.64 In this context, the House of Representatives Standing Committee on Environment, Recreation and the Arts (HORERA) report into the Community, Cultural, Recreational and Sporting Facilities Program emphasised the importance of the Minister involved in the selection of grants under that program documenting the processes that lead to decisions and recording reasons for decisions so that the Minister could be accountable to the Parliament. One of the HORERA report's recommendations was that where additional information is obtained and departmental officials' ratings are amended by the Minister, or if for any other reasons the ratings are amended, that additional information and its impact should be documented.¹² Decision-makers, including Ministers, are not obliged to accept the recommendations of officials but the reasons that they disagree with the assessment should be documented.
- 2.65 Where selection processes are conducted over an extended period of time the documentation of reasons for decisions can assist the assessment of the relative merits of proposals assessed at different times in the process. This helps to ensure that grant funding is awarded to those projects that best satisfy the objectives of the program.
- 2.66 Where on-line application and appraisal systems are used, grant administrators should have regard to Commonwealth guidelines for on-line record keeping. For example, *Guidelines for Keeping Records of Web-based Activity in the Commonwealth Government*, published by the National Archives of Australia.¹³ Grant administrators should also have regard to the *Electronic Transactions Act 1999*.

¹²House of Representatives Standing Committee on Environment, Recreation and the Arts (1994) *The Community, Cultural, Recreational and Sporting Facilities Programme: a review of a report on an efficiency audit by the Auditor-General*, pp. ix, 36.

¹³National Archives of Australia, 2001, *Guidelines for Keeping Records of Web-based Activity in the Commonwealth Government*, and *A Policy for Keeping Records of Web-based Activity in the Commonwealth Government*, Commonwealth of Australia.

Are there any conflicts of interest?

2.67 A conflict of interest could arise where decision makers or officers involved in grant program administration have a direct or indirect interest in the selection of a particular project for funding. Actual or perceived conflicts of interest can be potentially damaging to a funding organisation and its programs. Ensuring that relevant guidelines clearly outline what constitutes a conflict of interest, and that procedures are in place for staff to declare their interests can mitigate this risk. A regularly updated register of interests assists transparency and accountability. Where a case is not explicitly covered by guidelines, for example where a conflict arises part way through a grant process, a clear procedure for determining whether a conflict of interest exists, and how to manage any conflict, is required.

Are accountability mechanisms directed to outcomes as well as inputs and outputs?

2.68 Accountability arrangements should relate to program objectives as well as to the process of administration. The decision maker, the grant recipient and the grant administrators all have their respective roles to play in achieving the program's objectives and should be accountable for the way in which they fulfil their roles.

2.69 Progress reports should make clear the extent to which the program is contributing to policy outcomes as well as producing expected outputs. For example, recipients of funding under the Natural Heritage Trust may be required to report on:

- the length of waterway protected by fencing (output); and
- the improvement in water quality through reduced turbidity (outcome).

2.70 As well, such reports should reflect the extent to which the objectives/outcomes are still appropriate in the light of changing circumstances that may result from the impact of the program itself.

What accountability reporting mechanisms are proposed?

2.71 It is important that the agency reports regularly to the Government and Parliament on its use of public funds. Progress towards achievement of outcomes should be reported in Portfolio Budget Statements and Annual Reports. Public and internal reporting mechanisms are both part of the management trail. It is the responsibility of grant administrators to ensure that this accountability requirement is developed in a way that accurately reflects the operations and outcomes of the program.

2.72 Where more than one portfolio is responsible for delivering the Government's program objectives some effort needs to be taken to ensure an appropriate performance reporting framework, which adequately addresses the Government outcomes applying within relevant portfolios. In programs of this nature, individual agencies reporting only in individual departmental Portfolio Budget Statements and Annual Reports makes little or no contribution

to whole-of-government performance reporting. To avoid the 'silo effect', the ANAO recommends that a 'lead agency' is identified. The 'lead agency' assumes the responsibility for informing Parliament on a timely basis as to the progress of projects of the grant program and progress towards the achievement of the program objectives and their contribution to relevant outcomes from a whole-of-government perspective. This would enhance the accountability of such programs involving the significant expenditure of public funds.

Establishing performance measures

Have relevant and meaningful performance measures or indicators been set for the program?

- 2.73 Agencies collect and report performance for internal management and external accountability purposes. External reporting focuses on predicting the performance for a particular year through Portfolio Budget Statements and reporting on actual performance in annual reports. Internal reporting is more frequent and focuses on ongoing management. The purpose of performance information, whether internal or external, is to assist stakeholders and management to draw well-informed conclusions about performance and take corrective action if necessary.
- 2.74 A performance measurement framework is essential for grant administrators to assess the effectiveness of the program. Relevant, accurate, timely, accessible, interpretable and coherent¹⁴ performance information contributes to timely and effective decision-making in managing and adjusting grant programs, and contributes to the accountability of agencies for their performance.
- 2.75 It is important to consider performance measurement as a key component of planning and not as an afterthought. The capabilities of existing management information systems should be taken into account at this stage, as should the opportunity for cost-effective enhancements. Nevertheless, some performance information may take time to develop to the point where it provides effective feedback on performance.
- 2.76 Difficulty in determining key performance measures may reflect an underlying uncertainty as to the purpose of the program, and thus suggest that a reappraisal of objectives is required. If directly quantifiable measures of performance are not available or impractical to collect, other forms of indicators of achievement of the program's objectives may still provide useful information.

¹⁴ Developed by the Australian Bureau of Statistics from the methodology discussed in Statistics Canada, *Survey Methodology*, December 1999, Vol. 25, No.2, pp 139-149.

2.77 Chapters 4 and 5 of *Performance Information Principles, a Better Practice Guide* produced by the ANAO, provides more detail on planning for and developing performance information. In addition, the Department of Finance and Administration issued performance management principles in June 2001,¹⁵ which provide advice on performance reporting for internal and external purposes.

Characteristics of good performance information

2.78 Performance information should be:

- Relevant - Relevance is the degree to which performance information enables the evaluation of the organisation's performance. This will be best achieved where performance information is directly related to clearly stated outcomes and strategies, balanced in relation to the use of inputs and achievement of outputs and outcomes.
- Accurate - Accuracy is the degree to which the performance information is valid and reliable and accurately measures what is required. This may require a mix, as necessary, of qualitative and quantitative information.
- Timely - Timeliness is the degree to which performance information is available to users within acceptable time frames.
- Accessible - Accessibility means that performance information is available to users through delivery processes that they can use and in formats that suit them.
- Interpretable - Interpretability means that users can understand the performance information and use it appropriately. Performance information should be limited to a manageable number of items of key information, which focus on economy, efficiency and effectiveness and enable an informed judgement on the achievement of outcomes.
- Coherent - Coherence refers to the ability to compare performance information to other performance information, the degree of standardisation of performance measures, and the ability to assess performance trends over time. It reflects the degree to which information can be successfully brought together with other information in an overall

¹⁵ The performance management principles were finalised following consultation between the Minister for Finance and Administration and all portfolio Ministers, and are available on the Department of Finance's web site at (www.finance.gov.au/budgetgroup/Commonwealth Budget – Overview/performance management princip.html).

performance management framework. Performance information should be reported with sufficient explanation and comparisons, including targets, benchmarks and trends over time.

2.79 For internal and external accountability purposes, it is important to have reliable and relevant performance indicators for each outcome and output or administered item. It is desirable that there be maximum commonality for internal and external purposes to avoid duplication of effort. These indicators can include:

- *Input measures*, used primarily for internal purposes. These show the inputs (cash and resources) consumed by the program, sometimes linked with the relevant direct outputs. They tend to address economy and efficiency issues. For example, if giving funding to build childcare facilities, input measures would include the size of the budget or the staff resources allocated to administer the program. Care is required to ensure that measures concentrate on directly relevant activities and not on peripheral ones. Other input measures could include:
 - costs of administering a project;
 - costs of processing an application; and
 - number of processing errors/appeals against decisions.¹⁶
- *Output measures* show the extent to which the program's operational targets or milestones have been achieved. Output measures could include:
 - numbers of completed projects;
 - numbers of new applicants; and
 - numbers/value of grant awarded.
- *Outcome measures* assess the extent to which the program is meeting both operational and strategic objectives of the funding organisation. Identifying outcome measures is not always easy but it is a key step in establishing a clear view of the true benefits of a program. Outcome measures relate to changes effected in the community and include:
 - level of usage of facilities built with funding;
 - level of community involvement resulting from projects; and
 - levels of service delivery.

¹⁶ Often used as an output quality measure.

2.80 For external reporting, apart from effectiveness measures, output or administered item reporting is often structured along the lines of a basket of indicators addressing quality, quantity and price. In the latter case, some of the input measures (e.g. cost of administering a project, costs of processing an application) are useful supporting indicators, while the number of process errors / appeals against decisions can be a useful quality indicator at output level.

2.81 The Walhalla Goldfields Railway, a Federation Fund project, managed by the then Department of Industry, Science and Resources, is a good example of outcomes based reporting.

Case Study 2 - Measuring outcomes: Walhalla Goldfields Railway

Federation Fund Program Objectives (extract):

Significant and ongoing economic, social and/or cultural contributions to Australia and the Australian economy:

- (a) Number of people directly employed subsequent to completion; and
- (b) Assessment of the ongoing economic, social and/or cultural contribution of the project.

Reported performance:

- (a) Initially four full time employees which will eventually increase to six full time employees and five part time employees.
- (b) As the project nears completion, a great deal of interest has been generated for visits to this region. Consequently more new commercial activity has begun to occur in the region as a result of the new tourism opportunities being created by the railway. For example:
 - A planning permit has been applied for to construct another new hotel in Walhalla to meet the anticipated demand being created by the railway operating into town;
 - A new horse drawn carriage service to connect with train arrivals has been established; and
 - Tour groups and tour operators within the region, Victoria and interstate are focussing on Walhalla. Consequently, new tour packages have been developed particularly in conjunction with the railway and more generally within the region. These will substantially increase after the date of the Official Opening of the railway into Walhalla.

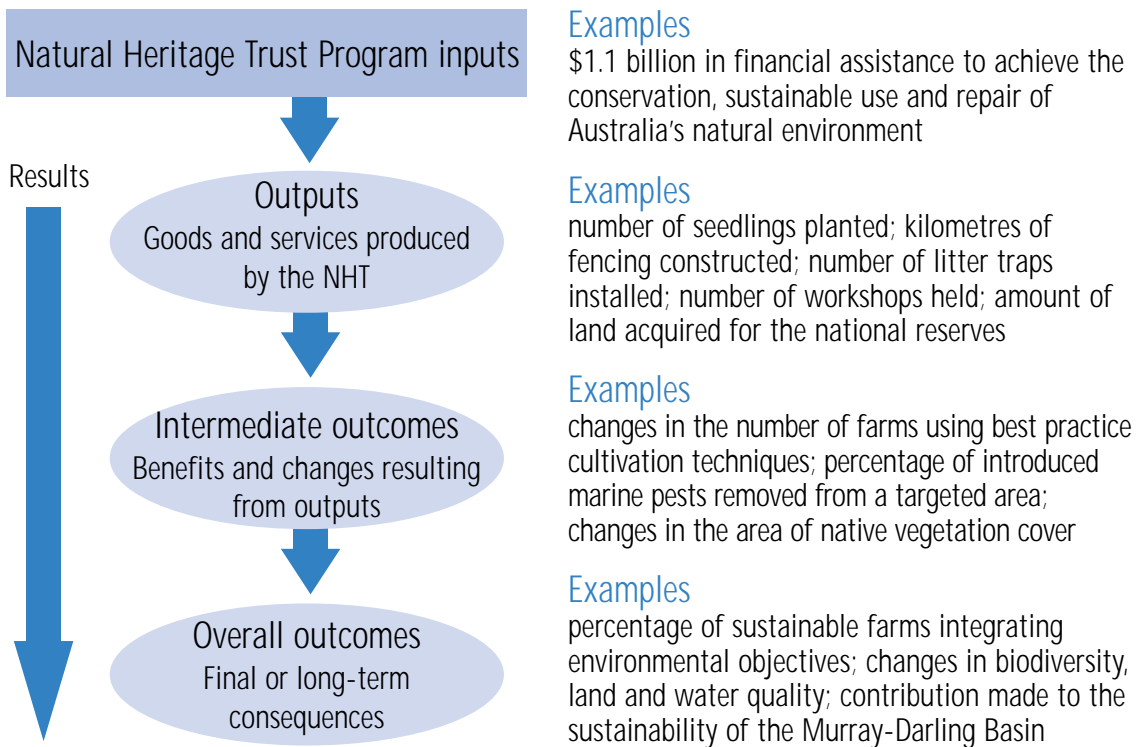
It is envisaged that visits to the railway and the region will increase by 40% after the railway opens in Walhalla.

Measuring intermediate outcomes

2.82 Measuring outcomes is problematical particularly in those programs with long lead times before outcomes become apparent. Nevertheless, good program performance information clearly identifies direct links between outputs and outcomes. A first step is valid output data that can then be analysed to indicate progress against the outcomes and any lower level targets identified for the output or administered item to which the grant contributes. This is particularly important for large complex programs with long lead times such as environment grant programs. Within this context, the identification of intermediate outcomes or output groups offers a practical and useful linking mechanism between base level outputs and higher-level outcomes for the purpose of reporting on effectiveness. In cases where the results can not be attributed in any meaningful way during the lifetime of a program, it may be more appropriate to report on inputs, outputs and intermediate outcomes or milestones achieved which would be consistent with the funding agreements. Use of intermediate outcomes could at least demonstrate that risks are being properly managed and the project is at least heading towards the intended overall result based on sound scientific and/or management practices. See Figure 3.

Figure 3 – The use of Intermediate Outcomes

Intermediate Outcomes in the Natural Heritage Trust



Source: ANAO Audit Report No. 43, 2000 – 2001, *Performance Information for Commonwealth Financial Assistance under the National Heritage Trust*



Common traps in designing performance information

2.83 Common 'traps' include:

- assuming that the award of a grant automatically secures the policy outcome;
- assuming that consumption of inputs results in desired outputs and outcomes;
- using the number of grants as a measure of output (this is simply a measure of administrative activity - interpretation is difficult because a grant is not a standardised unit of work);
- using incomplete data when forecasting;
- not relating measures to operational and strategic objectives or outcomes. It is more important to achieve the desired strategic outcomes from the program than to maximise, for example, the number or value of grants approved; and/or
- identifying large numbers of performance indicators because they are easy to measure rather than focussing on key indicators, which are difficult to measure or assess in any pragmatic way but are more directly related to the program's objectives.

2.84 There are a number of 'trade-offs' that should be considered in the design of a performance information framework.

- Behavioural
Performance measurement influences, and can also distort, behaviour. Poorly designed performance information can encourage grant-giving organisations and grant recipients to adopt inefficient or ineffective practices which allow them to achieve short-term targets but endangers the achievement of the long-term goals.
- Cost
Performance measurement costs time and money. In addition, poorly designed performance systems can adversely effect the performance of the program that they are measuring. Care should be taken to ensure that performance information is not over specified to the detriment of the efficient conduct of the program.
- Stability versus improvement
Performance information is most effective where trends can be established over time. However, performance information may need to be altered over the course of the program to improve measurement, which inhibits trend analysis.



2.85 A sound risk management framework can assist managers to design and implement appropriate performance measurement regimes.

Selecting funding strategies

2.86 Effective planning of the funding strategy helps to ensure that relevant budgetary factors are taken into account. Grants may be paid as:

- *Lump sum funding* paid at a set amount, irrespective of the project's costs. The main benefit is to minimise administration costs. Such funding can involve wasted expenditure, because some applicants may have proceeded with a payment that was less than the set amount. The risk can be reduced by adjusting the level of funding to the scale of project, but some excess grant monies may remain. A lump sum program may be most appropriate when individual funding is small in value.
- *Standard percentage funding* is calculated as a standard percentage of the project's costs. This method has similar advantages to lump sum funding, but using percentages reduces the potential for wastage of funds. Standard percentage funding should normally be subject to a fixed upper limit in the grant agreement.
- *Flexible funding*, where a financial appraisal of the project determines the amount and terms of the grant. In order to optimise program expenditure, this is normally preferred when large individual grants are anticipated. Funds should preferably be payable only on completion of work that represents a milestone defined in the relevant grant agreement. This strategy provides a greater degree of control over the recipient's use of funds. That is, if project work is not completed satisfactorily, no further funds are forthcoming.
- a combination of the above.

2.87 Whichever method is adopted, care should be taken to at least consider the cash management principles that are contained in the ANAO's Better Practice Guide *Cash Management in the Commonwealth Public Sector*. In particular, large amounts should not be paid in advance because of the risk of non-performance of obligations, or non-compliance with the terms of a grant.¹⁷

2.88 Where payments are made in advance there should be a net benefit in doing so. The net benefit could be demonstrated by:

- comparing the cost of administering payments in arrears to interest foregone;

¹⁷ ANAO, 1999, *Cash Management in the Commonwealth Public Sector*, Commonwealth of Australia, Canberra.

- efficiencies for the recipient in either reducing the time to complete the project or funds required (possibly linked to reducing the amount of funding as these benefits are realised); or
- establishing that the funded activity would not proceed at all or in a timely fashion without payment in advance.

2.89 A comprehensive documented risk assessment and cost benefit analysis will assist in establishing that payment in advance of need was warranted or not. In general, performance reporting and monitoring regimes will be more rigorous for grants where payments are made in advance of progress.

2.90 Criteria for payment of funds should be determined in the planning stage. Funds should *never* be paid before they have been formally approved and the recipient has accepted the terms and conditions of the grant agreement. Funding must not be approved retrospectively. Such actions would be contrary to legislation governing payments by the Commonwealth. Further guidance can be found in the ANAO's Better Practice Guide on Cash Management.

Grants and taxation

2.91 Goods and Services Tax (GST) may apply to grant payments¹⁸ and certain grant payments may be subject to income tax in the hands of certain recipients. In certain circumstances, these taxes may reduce the amount of funds that the recipient can direct to the funded project. In many cases recipients will need assistance in understanding their taxation obligations. For example, where recipients are carrying out research and development and receive a Commonwealth grant in relation to that research and development, sections 73C or 73D of the Income Tax Assessment Act 1936 may operate to 'claw back' or offset the benefit of the research and development tax concession. Grant-giving organisations should advise potential recipients to seek independent legal and financial advice if they are uncertain of their taxation obligations. The impact of taxation on individual grants should be determined during the planning process.

When is GST payable?

2.92 The Goods and Services Tax (GST) is a tax imposed on the "taxable supply" of goods and services¹⁹. In order for a supply to be a taxable supply the following tests must be satisfied:

- there is a supply for consideration
- the supply is made in the course or furtherance of an enterprise that is carried on by the supplier;

¹⁸ See ATO Ruling GSTR 2000/11 for more details.

¹⁹ See ATO Ruling GSTR 2000/11 for more details.

- the supply is connected with Australia; and
- the person making the supply is registered for GST, or required to be registered for GST.

When is GST payable on Grants?

2.93 The Commissioner of Taxation has issued a Public Ruling GSTR 2000/11 *Goods and Services Tax: Grants of financial assistance*, which will assist grant giving agencies and grant recipients determine whether GST applies to a grant. This Public Ruling is available on the ATO website.

2.94 A supply is something that passes from one entity to another. The supply may be one of particular goods, services or something else that is reflected in an agreement by one party to do something for another. Generally, the grant payment is consideration for the supply, by the recipient, of goods or services or the undertaking of an activity. The fact that the actual supply is made to a third party does not mean that the grant will not be subject to GST in the hands of the recipient. The legally binding obligations imposed on the recipient by a better practice funding agreement are likely to be treated as a supply to the grant-giving agency.

2.95 The GST treatment of a grant needs to be determined on a case by case basis and agencies should seek advice if they are uncertain. However, it is generally the case that, when a grant is paid to an organisation for a specific purpose or with binding conditions, GST is payable if the recipient of the grant is registered for GST. The recipient must give the agency a valid tax invoice or in particular circumstances the grant-giving agency can issue a Recipient Created Tax Invoice (RCTI). For a grant-giving agency to issue a RCTI, the recipient and supplier must satisfy requirements and should those requirements not be satisfied, then the RCTI will not be treated as being a tax invoice. The Commissioner of Taxation has issued a Public Ruling GSTR 2000/10 *Goods and services tax: recipient created tax invoice*. Only certain classes of entities may issue RCTI. One of the eligible classes are 'government related entities'. Government related entities has a special meaning for GST and is set out in the relevant legislation. Paragraph 13 of GSTR 2000/10 lists the requirements that must satisfied by the recipient and supplier. Those requirements are:

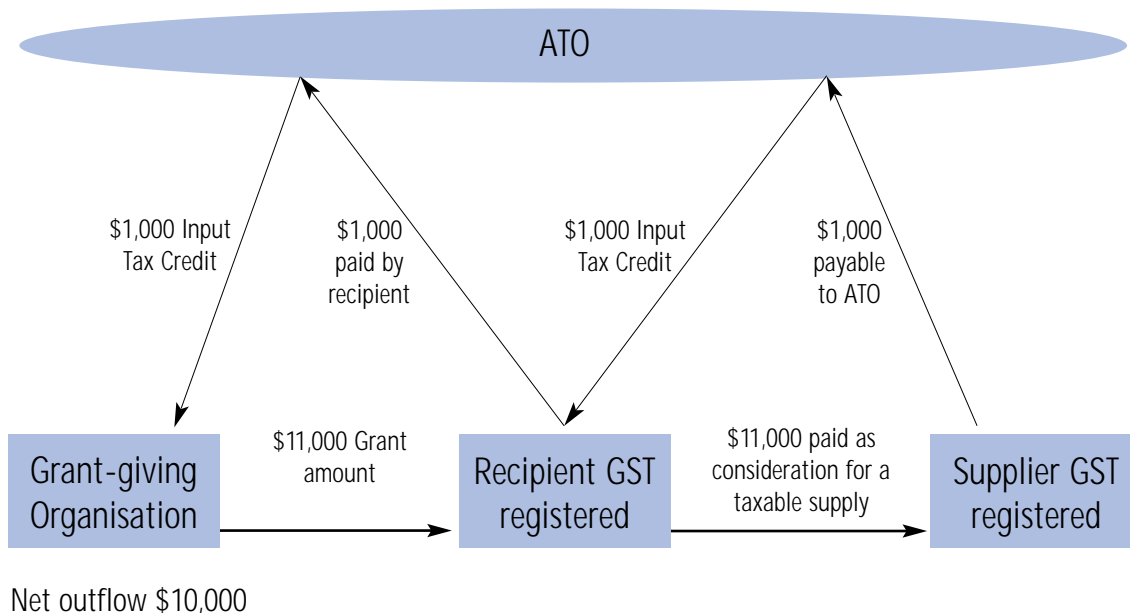
- (a) the supplier and the recipient must be registered for GST when the invoice is issued and RCTI must show the Australian Business Number (ABN) of the supplier;
- (b) the recipient must issue the original or a copy of the RCTI to the supplier within 28 days of the making, or determining the value, of the taxable supply and must retain the original or a copy;
- (c) the recipient must issue the original or a copy of an adjustment note to the supplier within 28 days of the adjustment and must retain the original or a copy;
- (d) the recipient must reasonably comply with its obligations under the taxation laws;

- (e) the recipient and the supplier must have a written agreement specifying the supplies to which it relates, that is current and effective when the RCTI is issued, agreeing that:
 - (i) the recipient can issue tax invoices in respect of the supplies;
 - (ii) the supplier will not issue tax invoices in respect of the supplies;
 - (iii) the supplier acknowledges that it is registered for GST when it enters into the agreement and that it will notify the recipient if it ceases to be registered;
 - (iv) the recipient acknowledges that it is registered when it enters into the agreement and that it will notify the supplier if it ceases to be registered for GST or if it ceases to satisfy any of the requirements of the determination; and
- (f) the recipient must not issue a document that would otherwise be an RCTI, on or after the date when the recipient or the supplier has failed to comply with any of the requirements of the determination.

2.96 As previous stated, failure to satisfy all of the requirements will mean that an invoice issued by the recipient will not be treated as being a tax invoice. Furthermore paragraphs 37 to 49 of GSTR 2000/10 explain in detail what happens if the requirements for RCTI are not satisfied.

2.97 It is the recipient and not the government agency that is liable to pay the GST. The recipient must pay 1/11th of the grant amount to the ATO. The grant-giving agency should be entitled to an input tax credit (ITC) equal to 1/11th of the grant amount. See Figure 4.

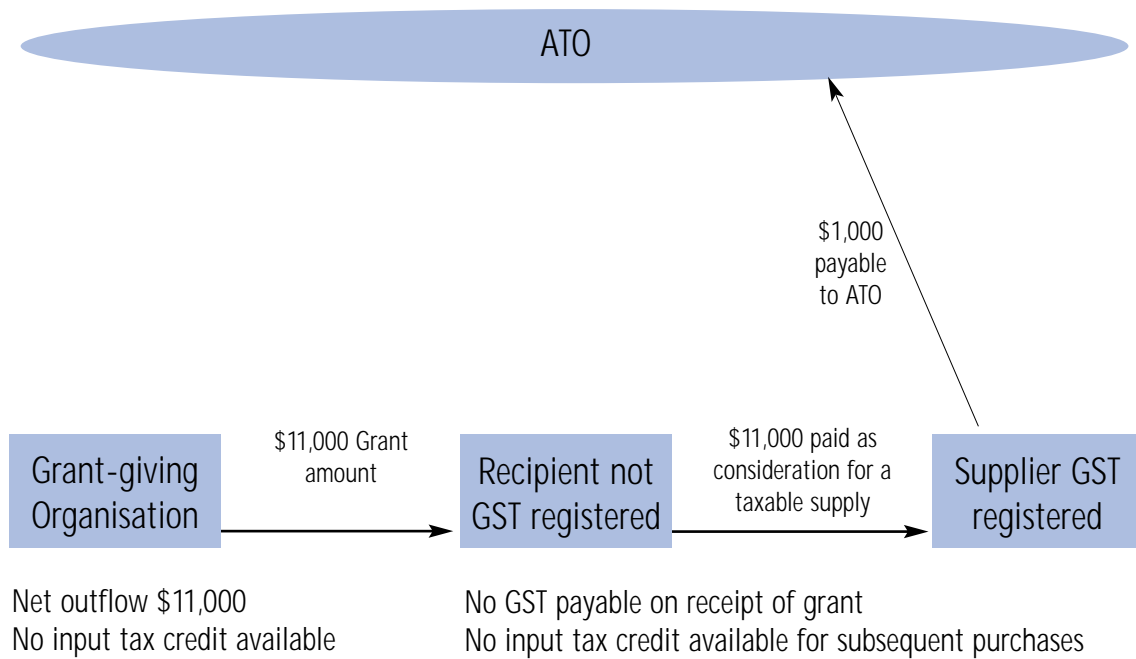
Figure 4 – Cash flows – Recipient GST registered



The effect of the GST in the hands of different recipients

2.98 If the recipient is not registered, or required to be registered for the GST, then GST will not be payable on the grant. The recipient will not have to remit 1/11th to the ATO but will not be able to claim an ITC on subsequent purchases. See Figure 5. The grant-giving agency will not be entitled to an input tax credit in relation to the grant and cannot issue a Recipient Created Tax Invoice. This means that if an identical sum of money is paid to two grant recipients, one registered for GST and one not, the amount immediately available to the two recipients is different. In Figure 4 the registered recipient has \$10,000 available and the net outflow to the grant-giving agency is \$10,000. In Figure 5 the unregistered recipient has \$11,000 and the net outflow to the grant-giving agency is \$11,000 (as there is no entitlement to an ITC). This is a matter that grant-giving organisations may wish to consider in setting the size of the grants.

Figure 5 – Cash Flows – Recipient not GST registered



Is the payment of the grant subject to withholding?

2.99 Where a recipient of a payment does not quote its ABN to the grant-giving organisation the organisation may be required to withhold 48.5% under the "No ABN Withholding" event.

"No ABN Withholding" Event

2.100 The "No ABN Withholding" event provides that an entity (in this case, the grant-giving organisation) must withhold an amount from a payment it makes to another entity (the recipient of the grant) if:

- (a) the payment is for a supply that the other entity has made, or proposes to make, to the payer in the course or furtherance of an enterprise carried on in Australia by the other entity and
- (b) none of the exceptions to withholding applies.

Exceptions

2.101 The primary exception is that the recipient of the grant has quoted their ABN to the grant-giving organisation on an invoice or some other document relating to the supply at or before the time of payment.

2.102 The provision does not apply if either the payer or the recipient is not carrying on an enterprise. Miscellaneous Taxation Ruling MT 2000/1 *The New Tax System: the meaning of entity carrying on an enterprise for the purpose of entitlement to an Australian Business Number*, provides guidance on whether an entity is considered to be carrying on an enterprise.

2.103 There is also a general exception to withholding where the payment is exempt income in the hands of the recipient of the payment. Further exceptions where withholding will not be required include:

- where the supply is made through an agent and the agent has given the payer an invoice or some other document relating to the supply that quotes the agent's ABN;
- the payment does not exceed \$50 (excluding GST); and
- the recipient of the payment is an individual and has given the payer a written statement to the effect that the supply is made in the course or furtherance of an activity or series of activities done as a private recreational pursuit or hobby, or is wholly of a private or domestic nature, and the payer has no reasonable grounds to believe that the statement is false or misleading in a material particular.

2.104 Where the last dot point above applies, the recipient can give the payer a *Statement by a Supplier* (NAT 5038) (this form is available to download from the Tax Reform Website at www.taxreform.ato.gov.au). This form may also be used where the recipient of the payment wishes to notify the payer that they are not subject to withholding because:

- they are a non-resident who is not carrying on an enterprise in Australia;

- the payment, for the recipient, is exempt from income tax;
- they (or a partnership they represent) have no reasonable expectation of profit or gain from the activity undertaken; or
- they do not meet the definition of "enterprise".

Program guidelines

2.105 Clear, consistent and well-documented program guidelines are an important component of an effective grant program administration system. A single reference source for policy guidance, administrative procedures, appraisal criteria (including the relative importance and weighting), monitoring requirements, evaluation strategies and standard forms helps to ensure consistent and efficient administration. This is especially important in networked programs or where multiple assessors are examining applications.

Planning checklist

- Establish the need for program or where the greatest need exists and map relationships with other funding sources to avoid duplication.
- Define, authorise and document program objectives in terms of measurable outcomes.
- Seek authority for the program (grant decision and/or legislation).
- Identify, analyse, assess, prioritise and develop strategies for managing risks.
- Establish rules of eligibility.
- Estimate all grant and administrative costs, including monitoring and evaluation.
- Assign administrative responsibilities and allocate resources.
- Ensure compliance with administrative law and access and equity provisions.
- Develop accountability framework and reporting mechanisms.
- Develop performance measurement and monitoring strategies.
- Select funding strategy.
- Liase with the Australian Taxation Office to determine tax implications.
- Develop program guidelines and adequately train staff.





3. Selection of Projects

This chapter deals with selecting successful projects. It describes how to establish and promote the program; prepare administrative procedures; handle applications; and offer of grants to successful applicants. The basic appraisal criterion is that the grant should add value by achieving something worthwhile that would not occur without grant assistance. Operating methods should be flexible and responsive to lessons learned from monitoring and evaluation. A key feature of a successful operation is having well-trained appraisal staff who are familiar with the objectives of the program. The award of a grant should not require the applicant to survive an obstacle course. Value for money does not come from avoiding expenditure but from spending money wisely to help those for whom the program is intended.

Handling applications

How are initial approaches from prospective applicants encouraged and developed?

- 3.1 A key ingredient of a successful grant program is a high level of interest from potential applicants. This means using appropriate and effective promotion, whether through modern technology or traditional media, to increase awareness in target groups.
- 3.2 Communication channels can include:
 - print and broadcast advertising;
 - news features and editorials;
 - newsletters and direct mail;
 - workshops or other special events;
 - publications, including annual reports;
 - public launches or announcements;
 - the Internet, for example:
 - www.grantslink.gov.au; and
 - the Commonwealth Business Entry Point www.business.gov.au; and
 - the use of outposted officers.²⁰

²⁰ A number of programs employ outposted officers to assist communities to develop proposals to access funding.

3.3 Encouraging as many potentially eligible applicants as possible helps target available funds towards the most promising projects. Promotional material should set out the various forms of assistance available in a clear and attractive way. Contact points for further advice and application forms should be listed.

Are there helpful guidance notes and clear application forms?

3.4 Ensure that promotional material and application forms are easy to understand and provide all necessary information in a logical fashion. Well prepared guidance notes and an information 'help desk', web based information, e-mail address or contact telephone number can help. In some cases, however, the information in the application form may just be the starting point for further discussions.

3.5 Information supplied with application forms should set out:

- statement of the program objectives;
- the information required to assess the application;
- the appraisal criteria to be used when assessing applications for approval and their relative importance; and
- information about the approval process including:
 - closing date for applications and likely decision dates, if applicable,²¹
 - an outline of the selection process including who is responsible for making the final recommendations and approvals;
 - requirements for providing appropriate performance information;
 - a description of appeal and/or Freedom of Information mechanisms; and
 - acquittal requirements to make eventual recipients aware of their accountability obligations.

3.6 The design of the application form should direct and assist applicants to provide information in respect of all selection criteria. As a minimum, the application should seek to establish:

- **organisational credentials**, including name, address, membership structure, aims and objectives of the organisation, names of contact persons, details of legal status (for example incorporated organisation or cooperative) of the applicant²² and (if necessary) any

²¹ Some programs assess and approve applications on an ongoing basis.

²² Incorporation can provide the grant organisation with some degree of assurance that the recipient has an appropriate management and reporting framework.

subsidiaries or controlling organisations, activities proposed, and evidence of management ability to undertake proposed project,²³

- **project/service details**, including purpose, identified demand and target groups for the project, rationale for the project, relationship to government program objectives, activities proposed with milestones for achievement, expected benefits of the proposed activities, proposed performance measurement of expected outcomes, evaluation and reporting plans, and consultation arrangements; and
- **project/service financial details**, including details of previous funding sought or obtained from Government, other sources of funding (supported by evidence), budget, proposed annual expenditure statement and management plan for the project and duration and nature of the funding required.

3.7 Record keeping is a key component of good corporate governance and business practice. Good record keeping assists organisations to meet their corporate accountability obligations and to demonstrate that due process has been followed in actions and decisions. It also assists business performance by better informing decision making and exploiting corporate knowledge. As noted earlier, availability of relevant documentation electronically, whether on computer disk, over the Internet or via e-mail, can reduce costs and improve the efficiency with which applications and queries are processed. Where agencies can identify previous and current grant recipients they will be able to more readily identify risks such as the potential for 'double dipping' and maximise opportunities for innovative co-operative funding with other agencies. The National Archives of Australia provide guidance on electronic record keeping through their e-permanence record keeping framework.²⁴

3.8 The delivery of services on-line introduces new risks to Commonwealth agencies. Security and privacy issues are essential considerations for the delivery of government services on-line. Good on-line security maintains client confidence in these on-line services and it also protects the integrity of government information systems. There are mandated requirements—administered by the National Office for the Information Economy—that all Commonwealth agencies use accredited security products and services, when implementing on-line systems, for authenticating businesses or individuals, communicating securely and assuring privacy. More information is available from: <http://www.govon-line/projects/publickey/Gatekeeper.htm>

²³The More Accessible Government (MAG) working group has developed a standard organisational information section mandated by the government, which complies with Australian Standard AS4590 – 1999 *Interchange of Client Information*. Contact mag@dotars.gov.au for more information.

²⁴National Archives of Australia, 2001, *e-permanence made easy: a managers guide to the strategic management of records and information*, Commonwealth of Australia.

Appraising applications

Do appraisal criteria target the available resources to priority areas?

3.9 The quality of the appraisal process is a function of the time and resources that are available to carry it out. Risk assessment can help agencies target their own scarce resources. The measure of a good appraisal process is one that is transparent and that is likely to select those projects that best represent value for money in the context of the objectives and outcomes of the grant program. The first step is to assess whether the applicant's proposals are consistent with the overall objectives of the program and satisfy the main appraisal criteria. This preliminary assessment will minimise time spent considering ineligible applications.

Rating appraisals

3.10 Some consideration should be given to the method and scale of rating projects. The process should be able to effectively discriminate between projects of varying merit in terms of the selection criteria and the objectives of the program. Numerical rating scales have the advantage of being able to discriminate quite effectively between individual projects and classes of project.²⁵ Scoring criterion using ordinal scales (i.e. High / Medium / Low) makes it inherently more difficult to arrive at an overall rating for each application. Furthermore, the use of ordinal scales usually results in fewer rating points with a greater number of projects in each rating point than with numerical scales. This can make it more difficult for decision-makers to differentiate the relative merits of projects within the same rating point. See Figure 6.

Figure 6 – Example of a comparison of numerical and ordinal rating scales

Application X	Numerical Rating Scale					Ordinal Rating Scale				
	1 lowest	2	3	4	5 highest	Low	Low Medium	Medium	Medium High	High
Criterion 1*					✓				✓	
Criterion 2		✓					✓			
Criterion 3			✓					✓		
Criterion 4				✓				✓		
Criterion 5					✓					✓

* Most important criterion that is weighted twice as important as any of the other criterion.

Note 1 Under the numerical scale the aggregated score for Application X would be 24 out of 30 (i.e. $((2 \times 5) + 2 + 3 + 4 + 5)$).

Note 2 Under the ordinal scale, it is not clear as to what combination of ordinal rating would equate to an overall score of either Low, Low/Medium, Medium, Medium/High or High.

²⁵The House of Representatives Committee on Environment Recreation and the Arts (HORERA) recommended the future use of numerical ratings in the report into the Community, Cultural, Recreational and Sporting Facilities Program, February 1994. The recommendation was accepted in principle by the Government of the day in May 1994.

3.11 However, care should be taken with the range of numerical ratings for each criterion and the weighting of criterion relative to others to avoid potential misinterpretation or unintended consequences. Numerical rating scales will only produce useful results if they are based on a sound underlying methodology. (The assumption underlying the production of an aggregate score from a numeric scale is that category 5 indicates 5 times more satisfaction of the criteria than category 1 and so forth for the other categories. If this is not the case it is only an ordinal scale that uses numbers to identify the categories.) If agencies are unsure about the most appropriate way to rank projects they should seek advice from the Australian Bureau of Statistics.

Do the selection procedures reflect the risk analysis?

3.12 Effective risk analysis helps to avoid the risk of wasting funds which can arise where:

- funding assists unintended beneficiaries. For example, a project may create jobs in the target area but such jobs may not go to local residents;
- too much money is given to valid projects. This can arise when there has been no proper financial appraisal of the applicant's needs. Not all applications may need to be examined in detail. The cost of the examination may exceed the value of the grant itself or the benefit to be achieved if the value of the proposed grant is small. In these circumstances, funding organisations need to set an appropriate cost threshold above which full financial appraisals must be carried out. Such thresholds should be consistent between related programs; or
- the identified need is overcome in other ways, projects remain incomplete or have no chance of success.

3.13 As previously noted, effective risk management methodology will identify potential risks and develop strategies for avoiding, minimising or treating them positively for advantage. This in turn reduces the risk of wasting program funds.

3.14 It is important that the appraisal and selection process be transparent and free from the risk of claims of political or other bias. It is better practice for all like applications to be assessed using a common appraisal process, and where there is a departure from the common approved process; the reasons should be documented.

3.15 Depending on the nature of the grant program and the number of applicants it may be possible to 'pilot test' appraisal methodology to fine tune the appraisal process and ensure that meaningful information is produced, which decision-makers can use to make informed decisions. Care needs to be taken to ensure that any applications that are used in the pilot testing are reassessed independently under the final appraisal process.

Does appraisal consider whether projects could proceed without funding?

3.16 As a general principle, grant appraisers should be satisfied that projects would not proceed, or not in the desired manner or time scale without assistance. Otherwise, any grant paid simply releases the applicants' funds for other purposes that may not contribute to the objectives of the grant program. Funds paid in such circumstances provide no added value and also represent an opportunity cost to the Commonwealth.

3.17 When considering what value will be added:

- ensure project planning estimates are realistic (analyse income and expenditure estimates, examine the implications of changes in the various estimates associated with a project etc); and
- consider carefully what would happen if no funding was awarded.

3.18 There may be difficulties in gaining sufficient relevant and reliable evidence on these aspects. A full appraisal by experienced staff with good local knowledge, a review of audited financial statements, or the use of specialist help are all possible sources. Such appraisal should also help to identify potentially fraudulent applications.

3.19 If the ratio of funding from other sources to Commonwealth funding is high, this is a strong indication that the project could well proceed without Commonwealth funding assistance. What constitutes a high ratio may vary from program to program; and an acceptable 'trigger' ratio should, where possible, be established at the outset as a basis for identifying applications requiring further investigation. Reports to management should state the range as well as the average ratio of other funding to Commonwealth funding to be achieved.

3.20 Unless allowed under the terms of the program, one of the clearest indicators that funding assistance is not essential is if the project starts before the grant has been approved. On these occasions the applicant should be expected to prove that a good project would have collapsed without the grant. Even in circumstances where grant conditions require a project to have reached a certain stage before a grant is given, the relationship between the objectives of the project and those of the grant program need to be clearly understood if funding assistance is not to be awarded unnecessarily.

Is there scope for alternative forms of support?

3.21 As previously noted, there may be circumstances in which it is more appropriate to support a project through other forms of assistance, such as provision of expert advice or loans. Where direct financial assistance is necessary the loan option can be used whenever practicable. Although there may be the extra burden of loan administration, savings can outweigh the cost.

- 3.22 Loans could, for example, be considered when a relatively costly project is expected to generate significant new income. If profitability is expected within a short time there is a case for loan assistance rather than funding assistance. Seed funding may be all that is needed to get the project off the ground. In certain circumstances loans on favourable terms may be appropriate. If there are commercial uncertainties, repayments can be scheduled according to actual profitability.
- 3.23 Finally, do not assume that all the applicant needs is money. Funding agencies can also contribute valuable specialist advice and experience as well as hard cash.
- 3.24 Before decisions to partially fund projects are taken, agencies should assess whether the project is still viable.

Do appraisal procedures ensure that successful applications meet the stated objectives of the program?

- 3.25 As stated earlier, the objective of the appraisal process is to select those projects that best represent value for money in the context of the objectives and outcomes of the grant program. In order to achieve this it is essential that all applications are consistently considered against the criteria established during the planning stage. Applications should only be assessed against the relevant pre-specified criteria, in accordance with the requirements of procedural fairness.
- 3.26 Consistent scrutiny will be helped by the use of appraisal checklists, standard appraisal forms and written guidelines for assessors. It may be possible to integrate these with the application form. Checklists should be designed to cover all main objectives of the funding assistance program and list the essential points in the appraisal process. Where possible, application forms should be designed to serve the purposes of appraisal. In addition, a review of selected appraisals by an independent, but not necessarily senior officer will help assure consistent assessment against selection criteria.
- 3.27 Use appraisal forms as working documents. Do not complete them only at the end of the appraisal process simply to record the decision to offer the grant. The form should also record the objectives, and outputs (direct and indirect) expected from each project and the reasons for the recommendation or decision.
- 3.28 Generally it is good practice when dealing with large, complex applications to supplement the full appraisal report with a short secondary appraisal by another, not necessarily senior, officer. This could concentrate on any sensitive assumptions but also review the completeness and validity of the full appraisal.

Do appraisal procedures include a quality assurance phase?

3.29 In addition, agencies should consider methods for assuring the quality of the appraisal process in terms of its effectiveness in selecting those applications that best match the objectives of the program as expressed in the selection criteria. For example, a senior officer could select a random sample of appraisal documents and review them for consistency, completeness and accuracy.

Do appraisal procedures provide for timeliness of appraisal?

3.30 Timely appraisal avoids possible waste and inequities that may arise through unnecessary delay. For example, if all applications are considered at the one time, appraisal of the relative merits of competing proposals becomes more efficient.

3.31 If this is not possible, for example, where extremely large numbers of applications are received, it can be a good idea to appraise applications in batches, rather than on a 'first come, first served' basis. Comparisons can then be made between applications, and reduce the risk of running out of available funds before more deserving applications can be received and considered. Where the selection process extends over a long period of time, documenting the appraisal process provides a point of reference for decision-makers' subsequent decisions.

3.32 If proposals are approved periodically or the selection process commences while applications are still being received, particular care needs to be taken to ensure consistency of appraisal. Areas of special need, or specific types of project can be identified and budgets set up to reserve sufficient funds for these applications. Such preferences should be periodically reviewed to ensure that priorities remain valid.

Is there clear separation of duties between appraisal of applications and approval of offers?

3.33 Good internal control requires that no single officer should appraise an application for funding assistance, give financial approval for the expenditure and make the offer to the applicant. Such an arrangement involves an unacceptable risk of collusion and fraud.

3.34 Responsibility for approving applications will normally lie with a Minister, Ministers or authorised delegate. Authorisation can come through an instrument from the Minister or from legislation. Before a letter of offer is issued, the Minister or approving officer should certify that:

- the appraisal is complete; and
- any recommendations for assistance have been fully justified and documented including reasons for decisions.

3.35 The grant-giving organisation should lay down levels of financial delegation for each approving officer to allow them to make offers of grants without reference to senior officers.

Such delegation should reflect the ability of the officer to work largely unsupervised, and can be linked to experience, qualifications and/or the satisfactory completion of training courses. Delegation limits should be reviewed periodically. There should be procedures for referring any unusual or sensitive cases to senior management.

- 3.36 Although the approving officer may not have the technical expertise of the appraiser they should use their own knowledge and experience to consider whether the grant is in line with the purposes of the program, that costs and other aspects appear reasonable, and that sufficient funds are available.
- 3.37 The separation of duties is a fundamental internal control. The responsibility lies with agencies to ensure this is maintained at all times.
- 3.38 In some cases a register of officers' interests will help to protect appraisers or approving officers from accusations of bias or conflicts of interest.

Grant announcements

- 3.39 The announcement of grants can be a very sensitive issue at any time but especially in the lead up to an election, be it for Commonwealth, state, territory or local governments. It is accepted that governments may choose the timing of announcements to suit their purposes having regard to other priorities. Nevertheless, from a program administration perspective and, as a matter of good practice, it is preferable for all decisions on approved or unsuccessful projects to be announced together, or within a relatively short period of time. This approach enables proponents to know the outcome of their proposals as soon as possible so they can begin implementing their projects or pursue alternative sources of funding. It also has the added advantage of avoiding any perception that the timing of the announcements is being used for party-political purposes.

Access to reasons for decisions

- 3.40 Public accountability is largely dependent on transparency, which is dependent on the proper maintenance and availability of relevant documentation. This means that the entire appraisal process should be documented in adequate detail. In particular, the reasons for departures from agreed appraisal procedures or decisions that are contrary to recommendations of officials or other expert panels and advisers should also be properly documented. Ideally decision-makers and their staff should retain working papers and notes taken at the time decisions were made. The retention and availability of these records protect all those involved in the selection process against any suggestion that projects have not been selected on their merits. This provides greater public confidence in the selection process and could assist officials in assessing similar applications in future.

3.41 Making the reasons for decisions of successful projects publicly available enhances the accountability and transparency of grant programs. Reasons for not selecting unsuccessful applications should also be made available to the relevant applicants if requested. Together with the publication of reasons for selection of successful projects, this assists applicants in preparing any future application.

Selection checklist

- Promote the scheme to potential applicants.
- Provide guidance and information on eligibility and appraisal criteria with application forms.
- Ensure effective internal control mechanisms, including prevention and / or detection of fraud.
- Ensure appraisal criteria target program priorities.
- Identify other sources of funding support.
- Investigate scope for alternative forms of support.
- Appraise applications consistently and fairly.
- Document reasons for decisions and maintain records of deliberation.
- Ensure separation of duties between appraisal of applications and approval of offers.
- Make grant offers and advise unsuccessful applications as soon as possible.



4. Management of Funding Agreements

Well-drafted funding agreements are an essential but not sufficient requirement for the effective management of grant programs. The effective management of a funding agreement is dependent on the incorporation of appropriate terms and conditions, derived from an analysis of the program and project specific risks, and supported by an efficient and effective monitoring regime. As outlined in chapter 2, an effective risk identification, analysis and assessment process will assist grant administrators to determine which terms and conditions to incorporate in individual funding agreements and the extent and frequency of project monitoring. The goal should be to balance the requirements of accountability, the protection of the Commonwealth's interests and the achievement of value for money for public funds expended against facilitating the achievement of the outcomes of the grant program.

Funding agreements

- 4.1 Well-drafted formal agreements are necessary for the effective management of grants. In some cases, legislation mandates the conduct and conditions applied to grant programs and individual grants. In the absence of legislation, the funding agreement is the instrument through which the funded project is facilitated. Experience has shown that better practice funding agreements are more likely to lead to better results and minimise ongoing monitoring effort.

Consider the remedies required

- 4.2 In a strict legal sense, a grant is a 'gift' from the Crown. However, as mentioned previously, the term grant is more generally used to include any funding arrangement where the recipient is selected on merit against a set of criteria.
- 4.3 A gift can be unconditional or conditional. A conditional gift is a payment of money on conditions unilaterally imposed by the grant-giving organisation. The conditions attached to a grant as 'gift' can either be *precedent* or *subsequent*. If a condition precedent is not fulfilled, then the gift does not take effect and property does not pass to the recipient. If a condition subsequent is not fulfilled, then the recipient loses the gift and the property reverts to the grant-giving organisation, or, in the case of money, a right of action to recover a similar amount arises. A grant in the form of a contract, negotiated by both parties, enables a much wider range of potential remedies to be available. These include the right to damages to compensate for any loss or requiring specific performance of the contract obligations.

- 4.4 In some cases (that is, unless conditions are statutory obligations and enforceable as such), the Commonwealth is left with limited rights to enforce the conditions of a 'gift', which could have been fully enforced if they were conditions under a contract (for example, by specific performance of the contract). Managers need to consider which remedies might be required in the event of a failure by the recipient to deliver the project required.

Form of funding agreements

- 4.5 There is no form of a funding agreement that is right for all circumstances, although, an enforceable agreement should be established, wherever possible. The forms of enforceable funding agreement include:
- Deed;
 - Contract,²⁶ and
 - Exchange of letters.
- 4.6 In some cases funding may be made to other government bodies under what are intended to be administrative or political agreements, for example, Memoranda of Understanding (MOUs) with state governments, which are not legally enforceable. Otherwise all funding agreements should be legally enforceable.
- 4.7 In the case of networked grant programs, MOUs or a combination of MOUs and legally enforceable agreements may be necessary. Care should be taken with the use of a combination of different forms of agreement across a networked grant program to ensure the intended result and level of protection and control is maintained. The risk is that the different forms of agreement may result in the conditions that the Commonwealth wants imposed on the use of the funds are not transmitted to the ultimate recipient of the funds. Agencies should obtain legal advice on the form of agreement and the terms and conditions that are appropriate for particular grants.
- 4.8 Unless legislation or policy mandates the form of an agreement, agencies should choose the appropriate form of agreement based on:
- an analysis of the risks (this need not be onerous – see Case Study 3);
 - the context within which the grant is made (e.g. the nature of the recipient, legislation, policy directions etc.);
 - the desired remedy for non-compliance; and
 - legal advice.

²⁶ Where funding agreements are contracts they will be subject to the *Murray Motion*, which requires all Commonwealth Contracts to be reported publicly. A funding agreement may be a contract regardless of whether the agreement is in the form of a deed, contract or exchange of letters. Grant administrators should seek legal advice on the status of their funding agreements.

- 4.9 Where a contract is chosen, it is important to avoid uncertainty regarding the legal relationship. The contract should not be called a 'grant contract' nor 'grant agreement', should not include any reference to a 'grant' or 'grantee' and should include all the normal provisions of a contract such as termination and applicable law provisions.²⁷
- 4.10 Regardless of the form, formal agreements should protect the Commonwealth's interests in ensuring that public money is used for the intended purpose, define project deliverables, schedule payments (according to progress), and specify progress reporting requirements and acquittal procedures etc. A well-drafted funding agreement is one that provides for:
- a clear understanding between the parties on required outcomes prior to commencement of funding;
 - accountability for, and protection of, Commonwealth funds;
 - legal protection of the recipient and the grant-giving organisation; and
 - agreed terms and conditions of the funding assistance, including performance information and access requirements and clearly defined roles and responsibilities of all parties.
- 4.11 Agencies should use plain English in grant documentation wherever possible. Some basic principles for drafters to consider are:
- grouping like concepts with like;
 - placing foundation concepts at the beginning – first things first (e.g. it is important to state the purpose of a grant clearly and up front);
 - use shorter words, sentences and paragraphs wherever possible;
 - use definitions to reduce the length of technical phrases;
 - avoid jargon; and
 - avoid inconsistent wording of identical concepts.

²⁷ The Standardising Consortium (part of the More Accessible Government (MAG) Initiative) is in the process of developing a range of standard agreements. A long-form funding agreement and minimalist (exchange of letters) agreement are expected to be completed and endorsed in mid 2002. For details contact the More Accessible Government Section at mag@dotars.gov.au.

Case Study 3 – An example of the integration of risk assessment into funding agreements

Risk management by DCITA and DEH for the Federation Cultural and Heritage Projects (FCHP) program

After the selection of projects under the FCHP program, DCITA, together with DEH, developed a simple but effective tool called a Contractual Issues Paper for undertaking risk planning for each of the FCHP projects they administered. The Contractual Issues Papers were short, relatively simple and not onerous to produce. They were an efficient, succinct and reasonable encapsulation of project risks and thus provided a valuable tool and reference document for managing project risks peculiar to each project. In light of its usefulness DEH extended this approach to the Federation Fund major projects administered by it.

The Contractual Issues Papers typically identified the following risks:

- the lack of capacity of the proponent to successfully manage the project;
- business plans provided by proponents that were based on unrealisable or unsubstantiated assumptions;
- threats to the viability of projects due to partial funding requiring redesign and scaling down of projects;
- failure to comply with heritage and other statutory requirements; and
- the lack of appropriate expertise of the proponent.

A common treatment for these risks was the incorporation of tailored planning stages in the project milestones defined in the funding agreement. The planning stage generally required that the proponent demonstrate compliance with statutory and other requirements, the viability of the project, the capacity of the proponent to manage the project and any other risks identified in the Contractual Issues Paper. The project would not proceed beyond the planning stage unless the recipient satisfied the administering agency, by way of the planning stage report, that all risks had been dealt with adequately.

Terms and conditions

- 4.12 Where legislation, regulation, government policy or other Ministerial or like direction, impose specific requirements such as how, to whom and in what form a grant is made and specifies particular terms and conditions, grant administrators are bound to adopt and enforce those requirements. Whether terms and conditions are discretionary or prescribed, grant administrators should ensure that grant payments are subject to appropriate enforceable terms and conditions consistent with the purpose of the grant established through funding agreements.
- 4.13 Whatever form of funding agreement is chosen, the conditions should be expressed with sufficient precision so that it can be determined whether the recipient is complying with those conditions, how disputes are to be resolved and include the circumstances for:
- release of funds;
 - banking arrangements;
 - terms and conditions of payment;
 - amendments to terms and conditions;
 - access to information in order to monitor compliance by the grant-giving agency and other Commonwealth agencies if appropriate;
 - remedial action where non-compliance occurs (including withholding or reclamation of the grant if necessary);
 - responsibilities on change of ownership / office bearers / incorporation;
 - reporting requirements;
 - financial acquittal arrangements and repayment of unspent funds and interest;
 - the recipient to notify any significant changes in the funded project; and
 - dispute resolution arrangements.
- 4.14 A degree of control can be achieved by structuring payments in such a way that funds are only paid according to achieved milestones as defined in an agreed work plan. Performance against milestones, reported by the recipient, may exceed or fall short of the levels agreed in the work plan. Milestone payments may be adjusted to make allowance for these 'unders and overs' in performance. Where this occurs, the grant-giving organisation should assess the appropriateness of such payments and their size and record their deliberations and the decision in sufficient detail. The grant-giving organisation should also consider the impact of 'under performance' of a milestone on the continued viability of the project in terms of the project budget, the achievement of remaining milestones and the project completion date.

4.15 It is often good practice to retain a small but significant portion of the grant funds until the recipient's final report has been acquitted. Recipients should normally also be required to submit a standard project completion (final) report, and to provide additional information if called for by the grant-giving organisation. The terms of an offer should ensure that it is possible to monitor and evaluate the project against approved performance criteria.

Compliance with terms and conditions

4.16 Where a breach of terms or conditions of a grant does occur, it is important for the grant-giving organisation to ensure that the rules of procedural fairness and other Commonwealth policy relating to dispute resolution is observed. The Model Litigant Policy, for example, requires the Commonwealth to act fairly, by:

- acting consistently;
- avoiding undue delay;
- making part payments where appropriate; and
- not requiring the other party to prove facts that the Commonwealth knows to be true.

The policy does not preclude the Commonwealth from acting firmly, by:

- properly testing claims;
- resisting unjustifiable demands; and
- pursuing money owed to the Commonwealth.

4.17 Advice to the recipient setting out the breaches of grant conditions in detail will enable the recipient to respond to the allegations and provide an opportunity to redress the situation if considered necessary by the funding agency. This could avoid the expense of subsequent legal action. Similar caution should be observed and legal advice sought when considering any other form of changes to a grant scheme.

Specific terms and conditions

Incentives and sanctions

4.18 Incentives and sanctions are important mechanisms for encouraging compliance with terms and conditions of funding agreements. Although sanctions are usually a last resort option, the FMA Act is clear on the obligations of CEOs regarding the efficient and effective use of Commonwealth funds and the recovery of debts and unused funds. The choice of controls and sanctions that are specified in funding agreements to achieve this should be in proportion to the consequences of non-compliance by the recipient and consistent with the objectives of the grant. Harsh penalties and sanctions may result in negative outcomes that are more deleterious than the risks of non-compliance. For example, some grants may be imperative

for the well-being of its recipients e.g. providing food, medical assistance or counseling to communities. In these circumstances, the Commonwealth is understandably reluctant to apply sanctions that would compromise worthwhile projects. Withholding grant funds pending satisfaction of a progress or financial reporting requirement may have negative consequences for the ultimate recipients of the grant and possibly for overall agency outcomes. However, such decisions should be made in the light of the circumstances and the reasons fully documented.

Disposal of assets

4.19 Where assets (e.g. motor vehicles, computer equipment) purchased with grant funds are disposed of during the life of the funding agreement, the agreement should clearly specify how the proceeds from the disposal should be disbursed. Options include requiring the recipient to reinvest the funds back into the project or return the proceeds to the Commonwealth. To better protect the integrity of the funded project in the long run, some grant-giving organisations have established agreements whereby the disposal of assets clause of the funding agreement survives the project period for, say, 3 to 5 years. On the other hand, agencies may finalise the administration of assets on the expiration of the funding agreement. An analysis of the risks involved will assist agencies in deciding whether the additional effort of administering the asset for an extended period is worthwhile.

Intellectual property rights

4.20 Where appropriate, grant agreements can be used to protect the Commonwealth's intellectual property rights where relevant and developed during the course of a funded project, or resulting from sponsored activities. It is important to establish ownership of copyright and patents where these may result from use of grant funds. The requirement to acknowledge the source of funding should also be included in the arrangement.

Accounting for grants

4.21 The accounting treatment for grants can vary depending on the terms and conditions of the grant agreement. It is prudent to confirm with the agency's Chief Financial Officer, and the ANAO, the appropriate accounting treatment where the grant program is material in the context of the agency's operations.

Networked delivery of grant programs

4.22 Networked grant programs by their very nature, require careful consideration of the form and nature of agreements, risk sharing, shared objectives as well as shared understanding of the various business and functional imperatives of the collaborating organisations and the practicality of shared accountability arising from joint responsibilities. Networked service agreements between Commonwealth agencies tend to be relational rather than 'legal' agreements. A mixture of relational agreements, such as MOUs, may support networked

delivery of grant programs, and contracts or contract like agreements. Responsible agencies need to give careful thought to the structure and content of these agreements with particular regard to the transparency and accountability of the program and individual grants. Agencies should take care to ensure that funds allocated in networked grants are expended for the purpose that they were originally intended.

- 4.23 In some cases grant-giving organisations may have developed a longer-term relationship with, for example, non-government organisations. In other cases there may be only a limited number of relevant service providers. In these circumstances, devolved grant management may help to streamline agreements and administrative procedures. When devolved grant management is in place with a particular organisation, an exchange of letters or variations to a schedule may be all that is required when specific projects are to be funded. This avoids the need to negotiate an individual contract for each funded project.
- 4.24 Some grant-giving organisations adopt a 'multi-level' approach. This is particularly relevant to the funding of recognised non-government organisations (or intermediary organisations) that are able to demonstrate a capacity to undertake the proposed activities in a professionally competent manner. Funds may be administered in the following ways:
- on a specific project by project basis;
 - where the intermediary organisation has had its appraisal processes approved, it is given responsibility for individual project appraisal ; and/or
 - on a 'program allocation' basis, whereby the recipient is given a bulk allocation of funds to achieve broad program outcomes and is responsible for the detailed allocation of funds to, and management of, specific projects.
- 4.25 All these arrangements can be covered by an overarching central agreement, with appropriate provision for contract variations where specific project requirements dictate. Regular review of these arrangements should be undertaken. In the case of bulk program allocations, the central agreement could allow for annual review of grant allocations, while overall review of the broad grant arrangement could be undertaken on a less frequent basis, perhaps every three or four years.
- 4.26 It is important for agencies to bear in mind that although devolved grant management arrangements, including networked delivery, are attractive from many perspectives the ultimate accountability for ensuring that Commonwealth funds will be used in an efficient and effective manner resides with agencies.

Setting up monitoring arrangements

4.27 A well-drafted formal agreement alone is not sufficient to ensure the objectives of the grant are met. Funding agreements need to be supported by performance and financial monitoring frameworks informed by an analysis of the risks involved. Performance monitoring determines the extent to which desired outcomes have been achieved, while financial monitoring determines whether the relevant accountability procedures associated with the funds have been complied with. Although, funding organisations are right to focus monitoring arrangements on outcomes, it is also important to ensure that key accountability procedures are adhered to. It is up to grant administrators to determine the scope and relative balance of each imperative.

Does the monitoring officer have access to all relevant specialist expertise?

4.28 Effective monitoring is assisted by clear definition of responsibilities for monitoring individual grants. Monitoring staff need appropriate skills and knowledge of the activity being undertaken and adequate administrative support to process routine monitoring data.

Are there arrangements to ensure consistent, high-quality, and appropriate frequency of monitoring?

4.29 Responsibility for monitoring grant programs is often best decentralised. However, this increases the risk of inconsistency in monitoring processes. This can be avoided by:

- setting standards for frequency, consistency and quality of monitoring and ensuring that these are met at all locations; and
- reviewing the scope and completeness of the monitoring actually carried out and watching for any backlog of unmonitored cases.

4.30 The extent and timing of monitoring can be a challenge, particularly for smaller grant programs with limited resources, and for programs funding a large number of relatively low-value grants. Effective risk identification and analysis can help to define the extent, timing, and frequency of monitoring in these circumstances.

4.31 Monitoring grants to voluntary bodies can cause particular difficulties. Often they may have limited resources and their reports or supporting documentation may be inadequate, thereby presenting a risk to the effectiveness of the monitoring regime. This risk can be reduced by using the grant program guidelines to inform grant applicants of the monitoring requirements in advance and also by ensuring that compliance can be achieved with a minimum of effort. This helps ensure that their applications contain plans for provision of relevant information. Award of a grant should be dependent on the inclusion of an appropriate monitoring plan in the application. Specifying monitoring and reporting requirements in the agreement ensures that they are enforceable.

Monitoring payments

Are monitoring arrangements linked to the risk of fraud?

- 4.32 Some grant programs fund projects spanning several years. For such grants, monitoring the costs and physical progress of the project to support progress payments should be a key element of the agency's fraud control plan and will help to reduce the possibility of fraud or overpayment.
- 4.33 There are several steps that can be taken to guard against fraudulent use of grant payments. Ensure that program guidelines include a fraud control plan and that staff are aware of the procedures to follow when fraud or misappropriation is suspected.
- 4.34 In most cases independently certified evidence of costs should be obtained before payment of the grant. This will also help to avoid paying grants before they are required. Other than for low value grants, visit the project and/or hold a progress meeting with the grant recipient before settlement of the final claim, to ensure that the grant has been spent as intended. It may also be helpful to examine a copy of the recipient's annual audited accounts.
- 4.35 Payments should only be made to the organisation applying for the grant, not to an individual. A project completion form should normally accompany the final payment. Further funds should not generally be paid until any previous grant has been adequately acquitted.

Monitoring recipient organisations

- 4.36 A key risk, outlined earlier in this Guide, is the potential for changes in the status or competence of the recipient group or organisation that could adversely affect their ability to carry out or complete relevant project work. The terms and conditions contained in grant should be designed to enable monitoring procedures to gather relevant information to provide sufficient warning of circumstances where a default may occur. Grant administrators may then be able to take appropriate action to mitigate any possible knock-on effects. This whole process depends on an effective risk assessment of the recipient organisation to inform the nature, extent and timing of such monitoring arrangements.

Monitoring progress

Has a monitoring strategy been implemented?

- 4.37 Although a monitoring strategy will have been established during the planning stage, regular review helps to ensure that adequate resources continue to be available to deal with the size, perceived risk and sensitivity of the grants awarded.

4.38 The point at which monitoring can begin depends on the type of grant. Generally, capital grants can be monitored soon after payment, but other types of assistance may require more time to determine their continuing impact (for example, whether a recipient is still in business, or a facility is still in use).

4.39 Regular review of grants reduces risk and the level of frequency can be determined by the:

- size of the grant;
- nature of the risks and their assessed priority;
- sensitivity of the grant;
- degree of uncertainty or subjective judgement in the original appraisal;
- type of grant (for example, is it repayable?); and
- type of project (for example, is it innovative or open to unintended changes of use or ownership?).

4.40 Useful techniques to help make monitoring more efficient include:

- stratified sampling, where all grants over a certain value are monitored, together with a random sample of the remainder;
- batching, where visits to all projects in a given area are held over until they can be made in one trip;
- cooperation with other grantors, or other bodies working in the same field;
- withholding final payment until the recipient submits a report on project completion; and
- consulting and agreeing with grant recipients on the frequency and quality of monitoring.

[Does monitoring include an assessment of project work in meeting program objectives?](#)

4.41 Recipients should be required to maintain performance information on achievement of program aims and objectives. Comparison of performance information across different projects can be assisted by common design of appraisal forms/checklists and monitoring reports. Funding agreements often require recipients to report project performance to grant-giving organisations at regular intervals and at the end of the project. If the grant extends over a period of years it may also be useful to include as a condition of the grant that the recipient is responsible for evaluating the project. Adequate evidence of progress and/or results can be used to determine funding over the remaining years of the grant.

4.42 Data required for monitoring should be set out clearly and in a form that facilitates periodic reports to all relevant levels of program management in the grant-giving organisation. All

monitoring reports and forms should be structured in such a way that ensures performance data is quantified and consistent and allows comparisons over time and against program objectives. Qualitative information can also be important and needs to be assessed on a similar basis.

Are budget targets monitored regularly?

4.43 Budget targets should be monitored regularly to ensure that management is alerted to any potential problems with a particular project (including its ongoing viability). The cash flow information provided with applications can often be imprecise, particularly where voluntary community-based organisations or individuals are involved. There are potential risks that the project might be prematurely committed, overspend or, conversely be unable to spend the full grant in the prescribed period. In addition, monitoring of cash flows and progress payments against budgetary targets is important if public money that has been committed is not to remain unused for long periods.

Are arrangements in place to recover grant funds when the recipient has not complied with grant conditions?²⁸

4.44 Section 47 of the FMA Act obliges CEOs to take action to recover debts owing to the Commonwealth. Programs should be designed to provide for the grant to be recovered in proportion to the degree to which benefits have been lost through breached conditions. Recovery of grants, in whole or in part, may be appropriate in a number of circumstances. For example, recovery of grants given to fund the expected deficits on commercial projects may need to be pursued if unexpected major windfall gains occur that could not have been predicted during the appraisal and approval process. Recovery may, however, depend on the time lag since the original grant was given. In larger cases, one means of recovering funds from a subsequent unauthorised sale or development of grant-aided property is to register a legal interest or even a legal charge on the relevant deeds.

4.45 Recovery may also be necessary where the conditions of the agreement have been breached. For example, when an intended facility is not built or funds are used for another purpose.

4.46 Any recurring need to recover grants is a warning sign that a program may not be achieving its objectives, or that appraisal of applications may not be fully effective. Periodically monitor levels of recovery and analyse causes.

²⁸ Where payments to be recovered included a GST component, advice should be sought from the Australian Taxation Office on whether the GST component should be recovered by the grant-giving organisation along with the unused grant funds.

4.47 Expenditure which exceeds grant funds, or a shortfall in project-generated income by the recipient can be an indicator of problems with the project which effective monitoring should detect in good time. The grant-giving organisation can help minimise the impact of this by:

- reordering priorities;
- reducing funding;
- transferring funds between budget items where authorised; or
- advancing future grant instalments.

Are management information systems structured to give relevant information?

4.48 Special attention needs to be given to structuring management information systems in order to effectively collate routine performance information. The objective is to make sure that early analysis of this information can identify potentially ineffective, inefficient or fraudulent use of grants. Unnecessary duplication and expense can be avoided with sensible sharing of information derived from monitoring arrangements.

Are lessons learned from monitoring incorporated into the grant appraisal process?

4.49 There are benefits in including grant appraisers in the monitoring process, especially the qualitative aspects of project performance, because lessons learned can then be incorporated into future appraisal or other procedures. It may also be useful to assess the original application during the monitoring process with a view to establishing whether all necessary information was sought or obtained at that stage.

Acquittal of grants

Are effective acquittal procedures in place?

4.50 Grant acquittals are an integral part of good risk management and provide a measure of assurance that public funds allocated to grant recipients have been spent for their intended purposes. Adequate and well-documented arrangements to ensure financial accountability are the basis of effective grant acquittal. Reliable, timely and adequate evidence is required to demonstrate that grant funds have been expended in accordance with the terms and conditions of the grant agreement. Administrative procedures to acquit grants on a regular basis are an important management control. The stringency of acquittal procedures should be balanced against the level of risk and take into account the cost of compliance. Risk management strategies will help achieve this balance.

4.51 Evidence could include:

- a certificate or statement of compliance from the responsible officer of the recipient organisation; and
- financial statements covering the period of the grant, which grant administrators may require to be audited by a registered auditor, depending on the assessed risk.

4.52 Where acquittal is not possible, the decision to recover or write-off outstanding funds should be documented. If grant funds remain after completion of a project, efficient procedures to recover those excess funds should ensure that the opportunity cost of delays in returning funds are minimised. Where appropriate, approval to carry over surplus funds to the next financial year could also be an option.

Acquittal of GST

4.53 In cases where the GST applies to grant payments, recipients should be required to account for the GST paid or payable to the ATO, by the grant recipient, (net of any input credits claimed or claimable) in any acquittal provided to the grant-giving organisation. Agencies should liaise with the ATO if they are uncertain of the appropriate treatment.

Management checklist

- Establish clearly defined terms and conditions within legally enforceable funding agreements.
- Design and use a suitable management information system with shared information as appropriate.
- Ensure monitoring arrangements are linked to a fraud control plan.
- Review financial and progress reports regularly.
- Take appropriate action when necessary.
- Ensure procedures to acquit grants are developed, understood and effectively implemented.
- Ensure recovery or other procedures are adequate and applied where necessary in a timely and effective manner.
- Ensure monitoring staff are adequately trained and have access to expert advice if required.



5. Evaluation of the Grant Program

Review and evaluation is an important part of managing government programs. Evaluations contribute to better program management, greater accountability, more informed decision-making, improved use of resources, and refined program objectives.

- 5.1 Periodic evaluations can contribute to improved grant program management, more informed decision-making, better use of resources and refined objectives, and greater accountability. The evaluation process should form part of the strategic planning and resource management processes of the grant program, capturing information on program-wide outcomes which is fed back into grant program planning. Evaluation should encompass assessment of financial performance, the utilisation of inputs and disposition of outputs. In addition, good evaluations assess the economic, environmental and social outcomes of the program.
- 5.2 In 1997, the Government made significant changes to the accountability framework that removed unduly prescriptive requirements and provided more flexibility and responsibility to agency managers. As part of these changes, the Government removed the mandatory requirements of the evaluation strategy. There is no longer an explicit requirement for agencies to externally report the results of formal evaluations, although the Portfolio Budget Statements guidelines encourage agencies to identify the evaluations of outcomes, outputs and administered items that are in progress or anticipated. In addition, *Performance Management Principles* issued by Finance in 2001, suggest that performance reporting in annual reports and similar documents benefit from drawing on results of reviews or evaluations.²⁹ Although dated, the Department of Finance's publication *Doing Evaluations: a practical guide*³⁰ still contains some of the most relevant information on conducting program evaluations.

Evaluating individual grants

- 5.3 The evaluation of individual grants is best achieved through robust performance management supported by a sound monitoring regime. Performance information, specified in funding agreements, should enable an assessment of the effectiveness, efficiency and appropriateness of the individual grant throughout the life of the grant. Monitoring throughout the life of

²⁹ The latest Performance Management Principles are available on the Finance web-site (www.finance.gov.au).

³⁰ *Doing Evaluations: a practical Guide*, Department of Finance, 1995.

the project should focus, to the extent possible, on the contribution to overall program objectives as well as the achievement of project specific goals. On the completion or termination of a grant it should be evaluated in terms of the project specific and program related objectives.

- 5.4 Management information systems should be structured to provide immediate feedback on the performance of individual grants and to capture information necessary for the evaluation of the grant program.

Managing the review/evaluation of grant programs

- 5.5 The grant program can often be a component of a larger program or sub-program, identified as, or within, a departmental output or administered item. Management should ensure that grant programs are reviewed regularly in their own right to ensure that they are achieving their stated objectives.
- 5.6 The purpose of these reviews is to assist grant administrators assess:
- the continued relevance or appropriateness of the program;
 - the effectiveness of the program (ie. whether program outcomes are achieving stated objectives);
 - whether there are better ways of achieving these objectives;
 - the need to establish new programs or extend existing programs; and
 - whether resourcing should remain at current levels, be increased, reduced or discontinued.
- 5.7 The frequency and type of review will depend on the risk assessment undertaken in the planning phase. For example, larger and more complex programs deserve a higher priority.

Are all grant programs reviewed periodically for economy, efficiency and effectiveness?

- 5.8 Although larger and more complex programs deserve a higher priority in the review cycle, smaller programs should also be reviewed periodically as fewer resources may have been devoted to monitoring. There are also benefits in reviewing jointly any programs which have similar or common objectives to highlight possible duplication or conflicts.
- 5.9 An effective risk assessment at the planning stage can assist in determining the timing of reviews. Rather than reviewing a project at its conclusion, it can be worthwhile conducting a review at an appropriate point to assist in refining or refocussing the program and ensure value for money.

Case Study 4 - Mid term review as an evaluation tool

Mid term evaluation can be a useful tool especially for large complex grant programs that are conducted over a long period of time. AFFA and EA conducted a mid term review of the Natural Heritage Trust in 1999. The review cost \$2.2 million and involved 29 reviews evaluating the administrative arrangements and performance of 17 NHT programs, including six regional reviews and three thematic studies on dry land salinity and associated vegetation management, urban environment and inland waterways. The cost of the NHT program is \$1.5 billion over the period 1996–97 to 2001–02.

The review was a frank, fair and balanced assessment and provided a basis for management improvement.

The review demonstrated the wide participation in the NHT and the substantial investment being made from a variety of sources. It provided some degree of validation of project performance information. However, it indicated that the program was "*poor in the areas of monitoring and accounting for performance*" and that there was a critical need for better baseline information on the status and trends of the problems that natural resource management policies were addressing. The review recommended an increased emphasis on strategic targeting of investment and devolution of regional delivery mechanisms.

Since the mid term review, agencies have given greater attention to the strategic focus of the NHT. The National Action Plan for Salinity and Water Quality is developing integrated catchment/regional management plans in priority catchments with targets and standards for natural resource management agreed between the Commonwealth and the States/Territories. Devolved grants have been strengthened to reduce the administrative burden by simplifying the application process and providing a more focussed, regional approach to community based projects.

The mid term review has contributed to improvements in the ongoing management of the NHT by improving the focus of the program and enhancing performance measurement. In addition, the enhancements to the performance information system, including the introduction of intermediate outcomes, greatly improves the capacity to evaluate the program on its close.

Is sufficient performance information available to support a review?

- 5.10 Effective reviews are characterised by clear definition of objectives, criteria and information needs. The original planning for the program should take account of the need for future evaluations and develop relevant and reliable performance indicators as a basis for such evaluations. The latter can also help to assess the effectiveness of the indicators themselves.
- 5.11 There should be an adequate population of mature grant-aided projects, which can give a representative view of the impact of the grant, and be sufficient for the purposes of the evaluation. A full effectiveness evaluation may be more demanding than a review of efficiency or an early review designed to ensure that the program is properly established.
- 5.12 Key data will also need to be identified at an early stage. From time to time it may be useful to consult unsuccessful applicants and non-applicants if they are willing to cooperate. Careful review of data from the initial appraisal stages will often provide useful lessons on how the program could be modified to encourage high quality applications and improve take-up and impact, or how to improve publicity.

Are reviews performed by staff independent of the immediate line management of the program?

- 5.13 Although it is efficient to involve the program's managers in an evaluation, it may not be reasonable to expect them to produce solely a critical, detached review of the results of their own work. An independent view is often preferable. This may be achieved by peer review by other staff within the organisation, or by involving internal audit. Another option is to appoint consultants with relevant expertise, although use of consultants is not necessarily a guarantee of independence or objectivity.

Carrying out a review or evaluation

Are objectives and measures identified at the planning stage still relevant?

- 5.14 One of the main reasons for reviewing a grant program is to see whether it is still required. Priorities can alter and strategic objectives change over time. If grants are to continue to be awarded, useful lessons can be learned for future management of the program.

Is the grant program achieving the intended results?

- 5.15 Evidence of the effectiveness of the program in achieving its intended results will come mainly from the performance measures established at the planning stage. Other criteria to be considered during the review could include:
- *Added value* – how far does the scheme provide added value?
- Establishing how far a program yields benefits above those that would have occurred without the program is often the most complex and judgemental part of any evaluation.

Statistical techniques can sometimes help. For example, time series analysis or correlation can reveal links between the outlay of the grant and changes in the situation the program is designed to tackle. Simply analysing social or economic trends is rarely a substitute for detailed evaluation of the results of individual grants. A better approach is usually to examine a carefully structured sample of completed projects to establish:

- whether the project would have gone ahead on the same scale and at the same time, without a grant;
 - whether the expectations underlying the justification for the decisions have been realised; or
 - whether the benefits from the assisted project will be sustained for the foreseeable future, or whether further assistance may be required.
- *Displacement* – to what extent are benefits offset by costs elsewhere?

The extent to which benefits achieved in one area lead to losses in another can be quite severe. For example, in the case of National Heritage Trust programs a comprehensive approach is essential. Too narrow a focus may simply move the environmental problem elsewhere within a catchment. Consider whether grants have helped to expand activity (rather than simply transfer it) or increase productivity. On the other hand, the objective of a program may not be to expand an activity but to rationalise or relocate it; and then a higher level of displacement may be acceptable.

- *Substitution* – how far do the benefits of the scheme replace other benefits?

Substitution is sometimes confused with displacement. But it measures the extent to which grant aided benefits are in substitution for benefits which would otherwise have occurred. An example of substitution in the job creation field would be where a grant program creates employment for certain people at the expense of others who might have been employed in the absence of the program. While difficult, it illustrates the benefit of thinking about issues/implications beyond the program ambit itself but which could impact on its success.

- *Quality* – what is the quality of the benefits provided?

Assessing the quality of the benefit provided by a grant program is often difficult but it can provide some valuable information. For example the possible reductions in operating costs resulting from improved quality of buildings erected or renovated with capital grants. Another example could be the extent to which the 'quality' of jobs achieved in a job creation program affects the sustainability of employment or contribute flow-on benefits to the economy.

Can you achieve the same outcomes more cost effectively?

- 5.16 Economy is not an end in itself and should not be pursued without regard to the level and quality of output. Minimising the cost of resources used in a grant program should nevertheless be constantly considered.
- 5.17 In assessing the potential cost of continuing a program, consider the opportunities for reducing both direct grant expenditure and administrative costs. Costs of administration can be reviewed in terms of cost per application or cost per grant and compared with suitable benchmarks in other organisations.

Can you get more for the same outlay?

- 5.18 Efficiency can be defined as the ratio of outputs to inputs. In simple terms it means getting more for the same cost, or cutting costs without reducing output. As with economy, any review of efficiency should extend to administration costs and other overheads, for example:
- the average time taken to handle an application;
 - the number and speed of response to initial inquiries per officer; or
 - the number of grants approved per officer.

Benchmarking

- 5.19 Reviews and evaluations can assist other organisations to benchmark their grant administration procedures. Accurate reporting of cost components can help compare performance over time and across organisations. The main cost components of grant administration include;
- planning;
 - promotion;
 - processing and appraising applications;
 - program and project monitoring; and
 - program evaluation.

Reporting

- 5.20 Reviews and evaluations should be reported to the responsible grant administrators at the appropriate level. As indicated in the discussion on monitoring, results of reviews and evaluations should be fed back to grant administrators in order to improve program effectiveness.

5.21 Public reporting of performance against outputs, administered items and Government outcomes is the primary means through which agencies and the Government discharge their accountability requirements to the Parliament and the public. In the absence of any separate, tailored performance reports, this accountability is usually achieved through disclosure in Portfolio Budget Statements and departmental annual reports. This may contribute to a 'silo effect' that obscures comprehensive reporting of the program. Where more than one portfolio is responsible for delivering a grant program's objectives and contributing towards the achievement of Government outcomes, whole-of-government performance reporting and evaluation through the identification of a 'lead agency' is an option which should be considered.

Evaluation checklist

- Ensure performance information is adequate for evaluation purposes.
- Review programs periodically for economy, efficiency and effectiveness.
- Ensure program evaluators are independent of program managers.
- Assess the relevance of objectives and performance measures.
- Determine if the program is achieving intended outcomes.
- Check whether grant benefits are in substitution for other benefits.
- Assess the quality of benefits provided.
- Review whether the same outcome, or better, could have been achieved more cost effectively.
- Make necessary adjustments to the operation of the program.
- Ensure that evaluations are reported at the appropriate level.





Appendix 1

Audits of grants and related programs

1993–1994	Audit Report No. 9	<i>Community Cultural, Recreational and Sporting Facilities Program</i>
1994–1995	Audit Report No. 21	<i>Specific Purpose Payments to and through the States and Territories</i>
1995–1996	Audit Report No. 6	<i>Community Development Employment Projects Scheme</i>
	Audit Report No. 18	<i>Competitive Employment Training and Placement Services</i>
1996–1997	Audit Report No 5	<i>Accounting for Aid – The Management of Funding to Non-Government Organisations</i>
	Audit Report No. 9	<i>Building Better Cities</i>
	Audit Report No. 11	<i>Export Market Development Grants Scheme</i>
	Audit Report No 26	<i>Community Development Employment Projects Scheme – Phase Two of Audit</i>
	Audit Report No. 32	<i>Administration of Grants in the Australian Public Service</i>
	Audit Report No. 36	<i>Commonwealth Natural Resource Management and Environment Programs</i>
1997–1998	Audit Report No. 42	<i>Preliminary Inquiries into the Natural Heritage Trust</i>
1998–1999	Audit Report No.18	<i>Accounting for Aid – The Management of Funding to Non-Government Organisations – Follow-up audit</i>
	Audit Report No.29	<i>Provision of Migrant Settlement Services by DIMA</i>
	Audit Report No.31	<i>Management of Performance Information for Specific Purpose Payments – The State of Play</i>
	Audit Report No.43	<i>Networking the Nation – The Regional Telecommunications Infrastructure Fund</i>

APPENDIX 1 Audits of Grants and related programs



1999–2000	Audit Report No. 30	<i>Examination of the Federation Cultural and Heritage Projects Program</i>
2000–2001	Audit Report No. 1	<i>Commonwealth Assistance to the Agrifood Industry</i>
	Audit Report No. 36	<i>Municipal Services for Indigenous Communities</i>
	Audit Report No. 43	<i>Performance Information Commonwealth Financial Assistance under the Natural Heritage Trust</i>
2001–2002	Audit Report No.11	<i>Administration of the Federation Fund Programme</i>



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