AUDITOR-GENERAL'S REPORT
PERFORMANCE AUDIT

Environmental Grants Administration

Department of Environment, Climate Change and Water
NSW Environmental Trust

The Legislative Assembly
Parliament House
SYDNEY NSW 2000

The Legislative Council
Parliament House
SYDNEY NSW 2000

In accordance with section 38E of the *Public Finance and Audit Act 1983*, I present a report titled **Environmental Grants Administration: Department of Environment, Climate Change and Water, and NSW Environmental Trust**.

Peter Achterstraat
Auditor-General

Sydney
August 2009

Contents

Foreword

In May I released the *Grants Administration* audit which examined how New South Wales agencies distributed grants across the State and what recipients thought of the grant process.

This report builds on that work. It assesses whether environmental grants are aligned with government objectives, are allocated appropriately and benefit New South Wales.

I looked at these grants because New South Wales, like other jurisdictions, is spending more to address environmental concerns. And it is important that taxpayers' dollars are used effectively.

I believe that this report will encourage better practice and that it is relevant to all grant-making agencies.

Peter Achterstraat
Auditor-General

August 2009

Executive summary

The focus of our audit

This report examines specific environmental grant programs and builds on our *Grants Administration* audit, which was tabled in May 2009.

We wanted to find out whether environmental grants were managed well. In order to answer this we looked at three lines of inquiry:

- are grant programs aligned to government priorities?
- are grants allocated appropriately?
- are grants achieving results?

We looked at ten programs which granted $200 million between 2002-03 and 2006-07 and plan to grant a further $300 million over the next five years. The focus of these programs is to support the restoration, rehabilitation, environmental education, research and sustainable use of the environment and to minimise flood and coastal risks. The programs make grants for studies, plans, community involvement, works and research.

The Environmental Trust (the Trust) manages seven of these programs and the Department of the Environment and Climate Change (DECC) has managed the other three programs (coastal, estuary and floodplain management) since April 2007. DECC is the sixth agency to manage the latter three programs which were managed by Department of Public Works and Services (from 1991), Department of Land and Water Conservation (from 1995), Department of Sustainable Natural Resources (from April 2003), Department of Infrastructure, Planning and Natural Resources (from August 2003) and Department of Natural Resources (from 2005). For ease of reading we refer to DECC as the managing agency throughout this report.

Readers should note that after this report was written, but before it was presented to Parliament, DECC changed its name to Department of Environment, Climate Change and Water.

Audit opinion

We found many aspects of good grants management, particularly in the Trust.

All of the programs we looked at are clearly aligned to the Government's objective to improve environmental outcomes. The Trust also has good practices for allocating grants.

Performance in respect of results was mixed although many grants delivered tangible benefits - homes were protected from floods, degraded waterways restored and endangered habitats protected.

This audit confirms the views of grant recipients in our first report that delay and red tape cause major problems.

Firstly, we found that the then Ministers spent 20 percent of estuary funding and some coastal grants without going through the normal processes of the respective programs. The former Ministers made these grants following direct requests for money from local government councils and there is no evidence that these requests were objectively assessed by the programs. Former Ministers also made two flood plain grants which did not involve consultation with the State Assessment Committee, as is the normal process. From the councils' perspective, the Ministers cut through red tape to negotiate a quick response to pressing problems.

Our analysis shows that Ministers did not disproportionately favour government-held seats. Nevertheless, Ministers should explain why they approve such funding requests ahead of others that go through normal channels.

Secondly, delayed grant approvals result in some applicants no longer bothering with the projects. In some years a third of floodplain grants were not taken up at all because, by the time funding was approved, it was too late for councils to use.

Thirdly, delays have contributed to agencies waiving agreed milestones and paying money to councils regardless of performance in order to spend the program budget before the end of the financial year.

Generally we found that while both DECC and the Trust had a range of strategies to monitor grants these were not always applied consistently or effectively.

Finally, only one of the ten grant programs reviewed has been independently evaluated since 2005. Both agencies recognise the need to review the effectiveness of their programs, and the Trust has committed to undertake evaluations.

Grant programs need to be regularly evaluated to see what is working and what can be done better.

Recommendations

The thrust of our recommendations is that:

- agencies reduce red-tape and delay when administering grants
- Ministers act transparently
- agencies monitor grants and evaluate funding programs.

After each of the specific recommendations below, we indicate which of the agencies need to take action

To reduce red tape and delay we recommend that the agencies:

align their grant process with recipient's funding cycles by assessing applications earlier and approving grants promptly *[DECC]*	Page 28
continue to explore the use of web-technology to streamline interactions with grant applicants and recipients *[DECC and Trust]*	Page 24
set themselves targets for the time taken to administer grants *[*DECC*]*	Page 28
eliminate unnecessary processes such as separate approvals for making a grant and telling the successful applicant about it *[DECC]*	Page 28
ensure new programs are properly planned before they are rolled out *[Trust]*.	Page 29

To improve transparency and objectivity we recommend that:

Ministers publish their directions to make grants outside of normal procedures *[DECC]*	Page 28
agencies should inform their assessment of applications with independent expert advice *[DECC]*.	Page 25

To improve the monitoring of grants and the evaluation of programs we recommend that agencies:

as a matter of priority build on their initiatives to collect meaningful information about the aggregate outcomes achieved through their funding *[DECC and Trust]*	Page 40
monitor grant outcomes in a timely way *[DECC and Trust]*	Page 37
ensure that performance milestones are achieved before making payment *[DECC and Trust]*	Page 34
regularly evaluate grants programs to see what is working and what can be done better. These evaluations should be published *[DECC and Trust]*.	Page 38

Key audit findings

Chapter 1   **Are grant programs aligned to government priorities?**

We found the programs were aligned to government priorities. The Trust and DECC made grants to improve environmental outcomes and minimise risk arising from flood within a framework provided by legislation, the State Plan and agency policy.

The agencies coordinate their efforts to reduce duplication and double-dipping through liaison and stakeholder involvement. This is important given the overlap between the programs that address the environment particularly waterways.

Chapter 2   **Are grants allocated appropriately?**

We found that a number of factors affect appropriate grant allocation and that the performance of the agencies was mixed.

Firstly, we found that the geographic distribution of grants was generally based on need as identified by a concentration of waterways, community awareness and interest in grants, population growth in environmentally sensitive areas, a track record of successful projects and a history of events including major floods and oyster bed contamination.

There is one caveat. Some floodplain projects identified as high-need were not funded because local government councils were unable or unwilling to contribute their own funds.

Secondly, we found that the Trust and the floodplain programs assessed grant applications appropriately. They used objective criteria and independent expert advice to assess and rank proposals. This provides confidence that the limited funding went where it was needed.

Until recently the estuary and coastal programs lacked procedures to rank projects. The programs clarified their procedures in 2006 and DECC is improving assurance that these grants are allocated appropriately.

Thirdly, we found that performance around decisions to make grants varied. The Trust made and documented decisions in accordance with its guidelines, including the few instances where it made additional decisions beyond those recommended by the assessment committee. On the other hand, former Ministers granted 20 per cent of funding managed by the estuary program and some coastal grants in response to direct requests from councils. There was no evidence that these Ministerial decisions were supported by assessments against objective criteria. Former Ministers also made two flood plain grants without consultation with the Floodplain Management Authorities, as is the normal process.

Lastly, we found that the timing and timeliness of grant decisions did not always support effective funding. DECC's processes were not aligned to the recipients' financial cycle and took up to a year to approve grants. After such delay some councils were unable to use the funds before the end of the financial year so worthwhile projects did not proceed. For example, in some years one third of floodplain grants were not taken up. To ensure budgets were spent, programs reallocated funding to new and existing projects in May and June. This significant reallocation in the closing months of the year was not consistent with the orderly allocation of funding. DECC advised that Treasury has refused requests for multi-year grant funding that would assist more orderly management of coastal, estuary and floodplain programs.

In contrast to DECC, the timing of the Trust's grants was generally appropriate. This was achieved by staggering the making of grants through the year and using multi-year funding agreements for large projects. However, the Trust did take over a year to finalise the first round of the multi-million dollar Urban Sustainability Program (USP) grants. The USP grants may have benefited from a staged introduction of the program. DECC refined its processes in the second year and gave more support to applicants developing Business Plans.

Chapter 3   **Are grants achieving results?**

We found a number of factors affected whether grants were achieving results and that agencies could do better.

Firstly, the Trust and DECC have a range of controls to ensure funding was used for the intended purpose. The agencies have not always implemented these controls well, although the Trust has been responsive in reviewing them. Some funding agreements were not clear about what had to be done for the money. Even where agreements specified payment on performance, such conditions were waived to enable budgets to be spent before the end of the financial year.

Secondly, we found many grants delivered tangible benefits - homes were protected from floods and endangered and degraded habitats were restored and protected.

The Trust has an adequate system, which it should build on, to monitor the outcome of individual grants. But DECC maintains little information on grant outcomes.

Thirdly, only one of the ten grant programs reviewed has been independently evaluated since 2005. Both agencies recognise the need to review the effectiveness of their programs, and the Trust has committed to undertake evaluations.

The agencies have little information on the aggregate outcomes achieved to date through their funding programs- for example, DECC cannot say how many homes have being protected from floods.

However both the Trust and DECC advise that performance measures introduced last year will provide information so their grant programs can be evaluated in future years.

Response from the Department of Environment, Climate Change and Water

Thank you for the opportunity to provide a formal response to the Performance Audit Report on Environmental Grants Administration.

In relation to the coastal, estuary and floodplain grant programs managed by the Department of Environment, Climate Change and Water (DECCW), it should be noted that for the period of the review, the Department had only administered these programs for two months. Since the Department assumed responsibility for these programs, there has been a review of their strategic direction to include assessments of climate change and sea level rise in hazard studies and management plans, as well as a focus on estuary health in the estuary management grants. In addition, the administration of these programs is also undergoing significant review. A senior project officer was appointed in May 2009 specifically to review the financial management and grants administration aspects of the programs, implement improvements in line with comments made by the Auditor-General and better align them with other DECCW grant programs.

I am pleased to advise that the Department has made progress in a number of these areas, and is continuing to implement improvements in line with the Auditor-General's recommendations. For example, in relation to the recommendations to reduce red tape and delay, the Department is exploring options to bring forward the grant application process, to enable better alignment with recipients' funding cycles, within the constraints of an annual budget allocation from NSW Treasury. This should substantially improve the uptake and timely delivery of projects by grant recipients. I note that the 2009/10 grants were announced on 6 August 2009, which is considerably earlier than in previous years.

To improve transparency and objectivity, the Department established a State Assessment Panel, which included representation by an independent expert, in 2008/09 to independently assess the 2009/10 coastal and estuary management grants. It is intended to build on these improvements for future years.

The Department is currently developing systems to ensure the improved monitoring and management of project progress, more accountable grant agreements, a milestone-based payment system and the systematic monitoring and reporting of grant outcomes.

I note that the report states that DECCW has introduced performance measures for the coastal, estuary and floodplain management programs. While we have taken steps to re-align the strategic direction and priorities of the programs to promote delivery on key State priorities, we recognise there is still a need to develop performance measures and a systematic approach to program evaluation.

The new monitoring and evaluation system being implemented by the Environmental Trust will result in an improved ability for internal and external review of the outcomes of Environmental Trust funding, from a project to program level. As with other aspects of the delivery of Trust programs, the system is risk based. It reduces potential ambiguity within an approved project, through the development of a monitoring, evaluation and reporting plan for each project.

The new system and the adoption of a new timetable for the rollout of evaluations of Environmental Trust programs will make quantification of the benefits of Trust funding easier.

Specific comments are provided below on other aspects of the Environmental Trust managed grant programs covered in Chapter 2 of the Audit Report, concerning the process of decision making and approval of projects, and the Urban Sustainability Program.

The three cases identified in the Audit Report (page 26), of the Environmental Trust making decisions in addition to the recommendations of the technical committees are not only in accordance with Trust guidelines, as recognised in the Audit Report, but also in accordance with the Environmental Trust Act 1998*. While it is worthy to note this variance in the standard decision making process, the context of these decisions should also be noted. In the period that the Audit Report covered, the Environmental Trust approved almost 900 projects under its contestable programs, with there being only three projects where the Trust made additional grants beyond the recommendations of the technical committees.*

It is acknowledged that the processes relating to the Urban Sustainability Program (Exhibit 19, page 29 of the Audit Report) evolved over the three years of calling for applications. This was the first time that the Environmental Trust had run a program of this scale and complexity, and changes were necessary to balance the application procedure with the approval, delivery and monitoring of the projects and program. The feedback given by grant recipients, analysis by the technical committee and the consideration of each round by the Trust resulted in changes being made each year.

These changes resulted in better decision making, an overall improvement in grants governance and improved capacity in the grant recipients to develop and deliver their projects.

I do not agree with the assertion that the program was rolled out "with some urgency". While there was a commitment by Government to roll out the program in the 2006/07 year, all aspects of the program went through appropriate consultation, development and approval processes. Similarly, the assertion that the Trust waived performance milestones to release second payments before the end of the 2006/07 financial year is misleading. The Trust made payment of 50% of the first year payments to the successful grant recipients at the signing of the grant agreement and recipients were allowed to spend funds on business plan development but not on the project until the business plan was approved. The intent was to release the remainder of the first year payment at the approval of the business plan.

When the Trust became aware that the majority of grant recipients were going to take significantly longer than the 1 May 2007 deadline for the submission of a robust business plan, it took the decision to vary the conditions of the agreement, and release the remainder of the first year payments. This decision was appropriate, as it is a standard practice in Environmental Trust urban sustainability grants to pay the first year's allocation up front, and holding the funds over would have constituted a significant liability to the Trust and constrained it in delivering its programs in the 2007/08 year. In releasing all of the first year funds, there was little risk to the Trust, as the recipients are local government organisations which present a generally low risk of non-performance. They continued to be held to the grant agreement, and could not expend funds on project delivery until their business plans were approved.

I thank you and your audit team for the opportunity to contribute to this Audit Report.

(signed)

Lisa Corbyn
Director General

Dated: 11 August 2009

1. Are grant programs aligned to government priorities?

At a glance

> **The key question we asked was:**
>
> Are grant programs aligned to government priorities?
>
> **Our assessment:**
>
> We found the programs were aligned to government priorities. The Trust and DECC made grants to improve environmental outcomes and minimise risk arising from flood within a framework provided by legislation, the State Plan and agency policy.
>
> The agencies coordinate their efforts to reduce duplication and double-dipping through liaison and stakeholder involvement. This is important given the overlap between the programs that address the environment particularly waterways.

1.1 Are grant program objectives clear and aligned with the agency's core business?

Our assessment

We found the programs are aligned to government priorities. The Environmental Trust (the Trust) and the Department of Environment and Climate Change (DECC) use grants to improve environmental outcomes within a framework provided by legislation, the State Plan and agency policy.

Criteria

Public funding should be for public benefit and it should fit with the agency's overall strategy and be made within relevant appropriations, budgets, delegations, policies and procedures. Agencies that do not align grant programs with their core business risk wasting taxpayers' money and misdirecting public resources.

The Department of Premier and Cabinet (DPC) *Good Practice Guide to Grant Administration* (the Guide) provides the following guidance to agencies managing grants.

> **Exhibit 1: The Guide calls on agencies to align grants with their business**
>
> Align the program's goals with the core business of the agency
>
> Include grant planning as part of the agencies business and budget planning
>
> Establish systems and procedures to ensure proper management and accountability
>
> At the outset establish performance measures for monitoring grant projects and identify agency processing costs for evaluating the program
>
> Establish appropriate risk management processes.

Source: Department of Premier and Cabinet 2006.

We found that the programs examined were aligned with government priorities and agency core business.

Grant making is the Trust's core business

Grant-making is the core business of the Environmental Trust, which Parliament established to fund environmental restoration, rehabilitation, research, education and land acquisition for the national parks estate.

The *Environmental Trust Act 1988* sets down the objectives of the Trust, provides a standing appropriation and the minimum value of grants to be made each year. This provides the Trust some certainty when planning activities and budgets. The Trust's objectives are also incorporated in its Business Plan and the Results and Services Plan agreed with Treasury.

Exhibit 2 indicates the activity in 2006-07 of the Trust programs examined.

Exhibit 2: Selected Environmental Trust programs 2006-07[a]				
Program	Number of applications	Number of grants	Average value ($'000)	Total grants ($'000)
Restoration & Rehabilitation	117	54	59.4	3,210
Eco Schools	110	60	2.5	150
Education	191[b]	21	57.4	1,205
Protecting our Places	24	17	27.9	475
Research Seed	11	4	17.8	71
Research Major	63[b]	10	143.7	1,437
Urban Sustainability Seed	23	23	26.2	604
Urban Sustainability Major	115	35	941.8	32,963
Dissemination	9	9	23.1	208
Total	663	233	173	40,333

Notes: [a] This list excludes $51 million of programs funded by the Trust but administered by other agencies.

[b] These programs use Expression of Interest. Less than one third of these applicants were called upon to submit a full application.

Restoration and Rehabilitation makes grants of up to $100,000 to community organisations and state and local government to restore or rehabilitate degraded areas, prevent or minimise future environmental damage and protect or enhance important environmental sites. For example, Lismore City Council received $82,906 to restore critical koala habitat.

Eco Schools makes grants of $2,500 to 60 schools a year to involve students in environmental projects. For example, Northlakes Primary received $2,500 to establish a native garden.

Education makes grants of up to $100,000 to community organisations and state and local governments to increase commitment to protecting the environment and promoting sustainable behaviour. For example, Canada Bay Council received $16,500 for educating residents about saving urban wildlife.

Protecting our Places makes grants to restore and rehabilitate Aboriginal land. For example, Mranagalli Land Corporation received $23,661 to rehabilitate Tingha Town Common.

Research makes grants of up to $100,000 (or $20,000 seed funding) to educational institutions and government agencies to research local solutions to environmental problems. For example, DECC received $190,000 to research vegetation change on endangered coastal floodplains.

Urban Sustainability makes grants of up to $2 million (or $20,000 seed funding) to local councils to carry out projects in partnership with the community to protect and restore the urban environment. For example, Warringah Council received $1,996,410 to make the Narrabeen lagoon catchment sustainable.

Dissemination makes grants to organisations that used Trust funding successfully to promote their work so that it can be used more widely. For example, the Dubbo Four Wheel Drive Club and TAFE received $36,000 to run training courses and publish a glove-box booklet on environmentally sensitive four wheel driving.

Source: Environmental Trust 2009.

DECC makes grants to support its core business	DECC is responsible for the State Plan priorities of improving environmental outcomes for lands, rivers and coastal waterways. DECC does this by setting policy and advising councils who are responsible for managing coasts, estuaries and floodplains. DECC supports this advice with funding to develop comprehensive plans for managing these natural resources. Councils are required to match these grants with their own funds.

DECC provides limited funding and encourages councils to attract funding from other sources (including Commonwealth) to implement the plans.

Exhibit 3: Selected DECC programs 2006-07				
Program	**Number of applications**	**Number of grants paid**	**Average value of grant payments ($'000)**	**Total grants payments ($'000)**
Coastal	25	28	40	1,130
Estuary	110	122	17	2,100
Floodplains	468	184	75	13,708
Total	603	252	78	19,708

<u>Coastal</u> helps councils identify and manage coastal hazards and the impact of climate change while accommodating population growth and improving public access and amenity. DECC makes grants to prepare and implement coastal zone management plans and to carry out works that mitigate hazards and increase recreational amenity.

<u>Estuary</u> helps councils use and develop estuaries sustainably. DECC makes grants to develop and implement estuary plans which aim to improve the environmental health of estuaries, protect important habitats, rehabilitate degraded areas and improve public access and amenity.

<u>Floodplains</u> helps councils plan and manage the use of flood prone lands. DECC makes grants to study how floods behave, to plan how to manage the risks and to undertake works to reduce flood risk. These works include evacuation systems, levees, house-raising and flood-proofing key roads. The program also contributed a further $3.1 million to floodplain projects, jointly funded with the Commonwealth, which are not included in these figures.

Source: Department of Environment and Climate Change 2009.

DECC only took over the programs in 2007	These programs have undergone significant administrative restructuring and fluctuating budgets in recent years. DECC only took over management of these programs in April 2007. Five other agencies had previously administered the coastal, estuary and floodplain programs since July 2002.

Floodplains, the largest of the three programs, dates back to the 1950's. It is closely supported by council stakeholders organised through the Floodplain Management Authorities in its task of reducing the risk to life and property from flooding. Floods cause over $130 million of damage on average every year in New South Wales.

The Government established the smaller coastal and estuary programs in 1991 to help councils improve their management of these environments. Initially much of the funding sought to improve public access with the construction of boat ramps, walkways, seating and lighting. Over time, the programs have refocused on helping councils develop plans to manage hazards and support the sustainable use of estuaries and coasts. Since 1992 the coastal and estuaries programs have made around $50 million in grants each.

1.2 Are there mechanisms to coordinate grants and minimise overlaps between agencies and services?

Our assessment

We found that agencies coordinate their efforts and reduce the risk of duplication and double-dipping through liaison and stakeholder involvement. This is important given the overlap between the programs, many of which focus on the environmental management of waterways.

Criteria

There are increasing expectations that the public sector coordinate efforts to achieve government policy objectives. These sometimes take a form of networked service delivery where two or more agencies work together for common outcomes.

Unfocussed and uncoordinated programs waste scarce resources, confuse and frustrate stakeholders and limit overall program effectiveness. This can also lead to risks of double dipping where recipients obtain funding for the same project from more than one source.

Exhibit 4: The Guide's recommendations for coordinating grants
Work with other agencies to identify need and remove overlap and duplication between grants programs
Establish a stakeholder reference group to support the program's effective funding of, and relationships with, grantees.

Source: Department of Premier and Cabinet 2006.

The agencies coordinate their efforts

We found that DECC and the Trust work with other agencies to coordinate their grant programs.

The members of the Trust, which sets direction and approves grants, include the Minister for Environment, the Director-General of DECC and representatives from the Local Government and Shires Association, the NSW Nature Conservation Council and Treasury. Stakeholders are also represented on the various Trust committees which assess grant applications.

DECC is on the State Mitigation Assessment Committee (SMAC) for the Natural Disaster Mitigation Program (NDMP) This Committee makes recommendations on NSW priorities across all natural disasters under NDMP and provides directions on the allocation of funding under relevant programs.

Other members include the:
- Emergency Management Australia (previously federal Department of Transport and Regional Services) which makes federal grants for emergencies and flood management
- Bureau of Meteorology which advises on weather and rainfalls
- NSW State Emergency Services which plans and manages emergency response and evacuation
- Department of Community Services which coordinates relief to communities affected by flooding
- Office of Emergency Services which coordinates prevention, mitigation and awareness of flood management
- Department of Commerce which provides financial assistance for both emergency and restoration works after natural disasters.
- Rural Fire Service
- NSW Fire Brigades.

This floodplain program is also supported by the Floodplain Management Authorities (FMA) which is the peak local government body representing councils, shires and trusts with major flood problems. The FMA has over 80 member councils and helps assess and prioritise flood management projects across the State.

The coastal and estuary programs have no peak stakeholder group like the SMAC or FMA. However, DECC staff liaise with local councils, the Trust and Catchment Management Authorities.

Both DECC and the Trust integrate their efforts and seek to leverage their grants with funding from other sources including the Commonwealth. The agencies support projects attracting funding from multiple sources. One of the strengths of the DECC approach is that it funds the development of comprehensive plans that councils can implement progressively as funding becomes available.

1.3 Do grant programs have clear criteria which are available to potential applicants?

Our assessment   The Trust provides timely information about established programs, the available level of funding and the criteria used to distribute funds.

Fluctuations in the level of DECC funding means potential applicants have less certainty when planning how to work with government.

While the floodplains program has robust, long-standing and well understood guidelines for selecting projects, the coastal and estuary programs established in 1992 only clarified their rules in 2006.

Criteria   Effective grant programs have clear, consistent and well documented guidelines and are well promoted to potential applicants.

Exhibit 5: The Guide recommends that agencies create awareness about the their grants

Develop program guidelines that:
- provide general information about the program including the amount, type and timing of grant funding
- set out eligibility and selection criteria so applications can be assessed objectively for consistency with the program, technical feasibility and the applicant organisational and financial capacity
- provide standard application forms that collect only information necessary to assess proposals against the published criteria
- describe procedural arrangements including how and when applications will be assessed and approved and applicants notified.

Make the program guidelines available to all prospective applicants and ensure a high level of awareness of the grant program.

Publish the program details on the government's consolidated website for grants at www.communitybuilders.nsw.gov.au.

Source: Department of Premier and Cabinet 2006.

Exhibit 6 shows how the Trust and DECC measure up against the *Guide's* good practice.

Exhibit 6: How the Trust and DECC promote their programs				
	The Trust	**DECC Flood Plains**	**DECC Coastal**	**DECC Estuary**
Publish clear criteria	✓	✓	✓ from 2006	✓ from 2006
Provide guidance material on how to apply and how funding decisions are made	✓	✓	✓ from 2006	✓ from 2006

Source: Audit Office research 2009.

Information is available to potential applicants

We found that the Environment Trust promotes available funding well to potential recipients. The Trust:

- publishes detailed information about grants on both its own website and the whole-of-government grants website, Communitybuilders and in newspapers
- holds workshops around the State to create awareness about available grants
- helps applicants to ensure that applications are complete prior to assessments by the technical committee
- is able to promote the amount of funding available with some certainty because it is provided by standing appropriation.

DECC's coastal, estuary and floodplains programs promote their grants by writing directly to councils. As these are the only eligible applicants, there is no need to publish grant availability more broadly. However the amount available fluctuates significantly from year to year as shown below in Exhibit 10.

While the floodplains program has robust, long-standing and well understood guidelines for selecting projects, the coastal and estuary programs established in 1992 only clarified their rules in 2006.

DECC practices have improved

Exhibit 7: Improvements in the coastal and estuary programs
The coastal and estuary programs have provided grants since 1992.

The coastal and estuary programs have provided grants since 1992.

Prior to 2006-07, the coastal and estuary programs provided little detail to potential applicants. There were no criteria or application forms. The programs simply wrote to the councils inviting them to apply for funding.

In 2006 the programs introduced information packs for the councils which contained a description of the programs' objectives, an application form with instructions for each question, conditions for financial assistance and the following criteria against which applications are assessed:

- meet the objectives of the Coastal/Estuary Management Program
- address the priorities of the NSW Coastal Policy 1997
- demonstrate project relevance with regards to Council's Coastal/Estuary Management Plan
- support for community and CMA
- demonstrate regional and State significance
- demonstrate the ability of council to advance the project with financial support
- identify immediacy of threats to coastal/estuary health.

Source: Department of Environment and Climate Change 2009.

2. Are grants allocated appropriately?

At a glance

The key question we wanted to answer was: were grants allocated appropriately?

Our assessment:

We found that a number of factors affect appropriate grant allocation and that the performance of the agencies was mixed.

Firstly, we found that the geographic distribution of grants was generally based on need as identified by a concentration of waterways, community awareness and interest in grants, population growth in environmentally sensitive areas, a track record of successful projects and a history of events including major floods and oyster bed contamination.

There is one caveat. Some floodplain projects identified as high-need were not funded because local government councils were unable or unwilling to contribute their own funds.

Secondly, we found that the Trust and the floodplain programs assessed grant applications appropriately. They used objective criteria and independent expert advice to assess and rank proposals. This provides confidence that the limited funding went where it was needed.

Until recently the estuary and coastal programs lacked procedures to rank projects. The programs clarified their procedures in 2006 and DECC is improving assurance that these grants are allocated appropriately.

Thirdly, we found that performance around decisions to make grants varied. The Trust made and documented decisions in accordance with its guidelines, including the few instances where it made additional decisions beyond those recommended by the assessment committee. On the other hand, former Ministers granted 20 per cent of funding managed by the estuary program and some coastal grants in response to direct requests from councils. There was no evidence that these Ministerial decisions were supported by assessments against objective criteria. Former Ministers also made two flood plain grants without consultation with the Floodplain Management Authorities, as is the normal process.

Lastly, we found that the timing and timeliness of grant decisions did not always support effective funding. DECC's processes were not aligned to the recipients' financial cycle and took up to a year to approve grants. After such delay some councils were unable to use the funds before the end of the financial year so worthwhile projects did not proceed. For example, in some years one third of floodplain grants were not taken up. To ensure budgets were spent, programs reallocated funding to new and existing projects in May and June. This significant reallocation in the closing months of the year was not consistent with the orderly allocation of funding. DECC advised that Treasury has refused requests for multi-year grant funding that would assist more orderly management of coastal, estuary and floodplain programs.

In contrast to DECC, the timing of the Trust's grants was generally appropriate. This was achieved by staggering the making of grants through the year and using multi-year funding agreements for large projects. However, the Trust did take over a year to finalise the first round of the multi-million dollar Urban Sustainability Program (USP) grants. The USP grants may have benefited from a staged introduction of the program. DECC refined its processes in the second year and gave more support to applicants developing Business Plans.

Funding the right project is critical to the success of grants programs. This chapter looks at how proposals are assessed and the appropriateness and timing of grant decisions.

2.1 Where did grants go?

Our assessment

We found that the government-held seats were not unduly favoured and received less than independent and opposition electorates.

The geographic distribution of grants was based on identified need. Generally coastal regions, particularly the North Coast, attracted more funding. This reflected the objectives of, and community interest in, the programs. The Trust is working to attract grant applications from other regions which have expressed less interest in funding opportunities in the past.

It should be noted that environmental grants are distributed differently to the larger sample of Government grants examined in our *Grants Administration* report of May 2009.

Grants did not favour government electorates more than others

Firstly, we analysed the distribution of funding by electorate.

We found that independent seats received the most and that overall opposition received more than government electorates.

Exhibit 8: Grants funding by electorate (2002-03 to 2006-07)		
Electorate type	Average yearly funding ($ thousands)	Compared to state average
Independent	411	1.53
Government marginal	366	1.36
Opposition marginal	283	1.05
Opposition overall	277	1.03
Opposition safe	270	1.00
STATE AVERAGE	**269**	**1.00**
Government overall	256	0.95
Government safe	246	0.91

Source: Audit office research 2009.

Secondly, we looked at how funding varied between regions. Exhibit 9 shows that non-metropolitan coastal regions attract more funding.

Grant distribution was appropriate to identified need

Exhibit 9: Average yearly electorate funding by region (2002-03 to 2006-07)
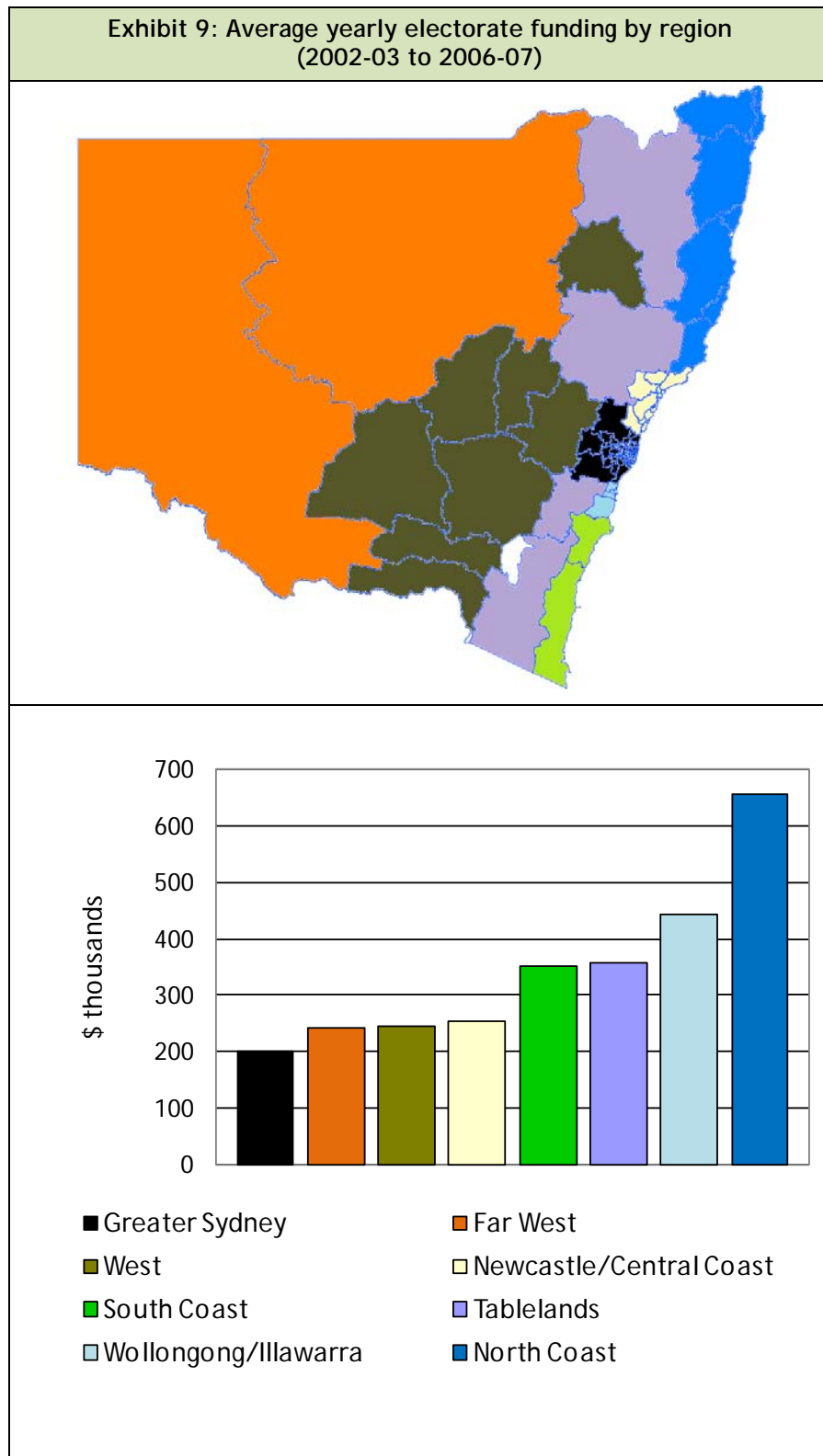
Source: Audit office research 2009.

The higher funding of coastal regions, particularly the North Coast, is largely due to the focus of these programs on waterways and reflects identified need in communities with:

- major population growth, sensitive environments and underdeveloped infrastructure
- a recent history of severe flooding and environmental incidents such as oyster bed contamination.

Both agencies are aware that they need to provide a level playing field for potential applicants.

The Trust seeks to promote equal opportunity by running workshops to increase awareness of, and generate applications from regions which have 'underperformed' in previous funding rounds.

For its part, DECC field officers promote awareness of available funding when they attend council committee meetings. However, DECC staff advise that two factors constrain these efforts.

Firstly, fluctuations in annual grant expenditure make it difficult to take a coordinated approach to planning and promoting the programs.

Exhibit 10: DECC program expenditure ($ millions)
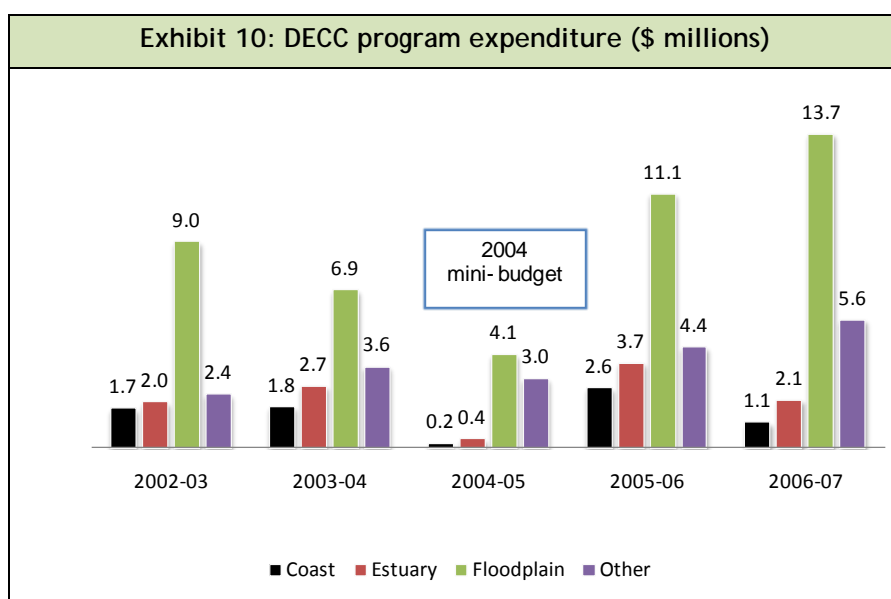
Source: Department of Environment and Climate Change 2009.

Notes:

The floodplain figures exclude a further $19.9 million of grants to projects funded jointly with the Commonwealth.

'Other' refers to grants managed by the estuary program that were made by former Ministers outside of the programs' normal application-driven process. It includes restoration projects at Tuggerah Lakes, Lake Macquarie, Kooragang Island, Tweed River and Lake illawarra. The Government gave additional funding of $16.2 million (86 per cent) and the program contributed $2.7 million to fund these projects.

This volatility in available funding affected the number of grants made.

Exhibit 11: The number of grants made by DECC programs
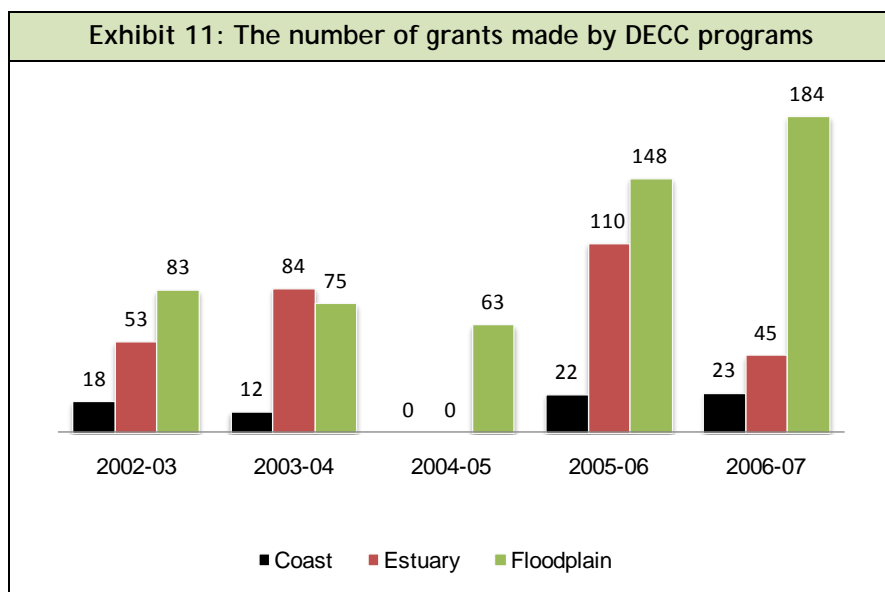
Source: Department of Environment and Climate Change 2009.

Secondly, DECC requires councils to contribute from between 50 cents and a dollar of their own money for every grant dollar received. This imposes a discipline on councils to moderate and prioritise their funding applications. But it has also resulted in five of the eleven most needed floodplain projects in New South Wales not progressing despite being identified since 2001, because councils have been unwilling or unable to contribute to the projects.

Exhibit 12: Priority flood projects that have not progressed
Hastings River flood awareness and evacuation management
Hastings River flood warning
Murrurundi voluntary purchase of at-risk houses
Narrabri flood mitigation works
East Wagga levee

Source: Department of Environment and Climate Change 2009.

The Minister may waive or reduce the requirement for councils to contribute funds, but this discretion is seldom used.

2.2 Did agencies assess applications appropriately?

Our assessment
We found that the Trust and the floodplain programs assessed grant applications appropriately throughout the period reviewed. They used objective criteria and independent expert advice to assess and rank proposals. This provides confidence that the limited funding was well targeted.

Until recently, the estuary and coastal programs did not have established procedures and criteria to rank projects and decisions were not adequately documented. These programs clarified their procedures in 2006 and are improving assurance that these grants are allocated appropriately.

Criteria   The DPC Guide provides useful advice for assessing grant applications.

Exhibit 13: The Guide's recommendations for assessing applications
Require grant applicants to use a standard form that only collects information necessary to assess proposals against the published criteria.
Use technology to receive and assess applications.
Establish a transparent, objective and streamlined assessment process that:
• has minimal administrative layers • includes independent and stakeholder representatives on the assessment committee • has processes to identify and manage conflicts of interest • is separate from the approval process.
Fully document funding recommendations.

Source: Department of Premier and Cabinet 2006.

Exhibit 14 shows how the Trust and DECC measured up against the *Guide's* recommendations.

Exhibit 14: How the Trust and DECC assessed applications				
	The Trust	**DECC Flood Plains**	**DECC Coastal**	**DECC Estuary**
Applications are made on a standard form	✓	✓	✓ 2006	✓ 2006
Applications are made on-line	e-mail only	e-mail only	e-mail only	e-mail only
Assessments are informed by expert, independent and stakeholder advice	✓	✓	Not found	Not found
Assessments are documented	✓	✓	✓ 2006	✓ 2006

Source: Audit Office research 2009.

The Trust and DECC's floodplains program use a consistent process that aids transparency

The Trust and floodplains programs required funding applications on standard forms throughout the period audited. These forms, supported by guidance notes and program manuals, give clear advice about the program's criteria, the information to be provided in the application and the procedure for assessing applications. The well designed forms encourage applicants to address the criteria used to allocate funding and increase the transparency and consistency of the assessment process.

DECC's coastal and estuary programs are improving their procedures

Between 2002 and 2006 the coastal and estuary programs did not have a standard application form. Councils submitted a one-page letter seeking money for an idea rather than a concrete proposal. The lack of detail and consistency made it difficult to assess and prioritise projects. Both applications and assessments were poorly documented.

In 2006 the coastal and estuary programs introduced standard forms for applications. This is improving the quality of funding proposals and their assessment.

Agencies are adopting technology to streamline processes

Both DECC and the Trust accept applications by e-mail.

The Trust has examined the option of on-line applications and determined that its introduction would not yet provide a cost-benefit. However, the Trust has moved its assessment process on-line. The Trust sends applications to its assessors electronically and accepts and aggregates their assessments electronically.

DECC advises that it began to introduce web-based technology to administer coast, estuary and floodplain grants in late 2008.

As our recent *Grants Administration* report noted, other jurisdictions are using technology to streamline the process of making and assessing applications.

Recommendation

Agencies should continue to explore the use of web-technology to streamline interactions with grant applicants and recipients.

The floodplain and Trust programs assess applications robustly with independent and stakeholder advice

The floodplain and Trust programs assess grant proposals robustly.

DECC reviews and ranks floodplain applications using a scoring system developed by the Floodplain Management Authorities (FMA) which gives priority to:

1. ongoing projects
2. studies to assess flood risks and options for as many towns as possible, with priority given to higher risk areas
3. new flood-works ranked for the severity and frequency of the flood-risk, the cost and benefit of the proposed work and compliance with the State's flood policy.

The FMA represents councils responsible for managing flood-prone land and its involvement in the assessment of application provides objectivity, independent oversight and legitimacy. DECC gets the FMA to endorse the list of projects recommended for funding before submitting it to the Minister for approval.

The Trust uses external advice to inform its assessment of applications. The Trust has technical committees supported by a Trust officer and comprised of members from the environmental sector, industry, government and academia. Each member assesses and scores applications against the program criteria. The numeric scores are collated and competing projects differentiated. This clear process supports good documentation of project prioritisation. At the end of the funding round the committee reviews its work and recommends improvements for the next round of assessments.

In contrast, the coastal and estuary programs did not have a consistent way of assessing applications before 2007. Criteria were uncertain, the responsibility of regions and head office for assessment was ill defined, and the ranking of projects as low, medium or high priority provided insufficient differentiation between projects. Not surprisingly assessments were poorly documented.

DECC's coastal and estuary programs are improving	DECC has since established clear criteria for estuary and coastal programs applications and this is improving assessments and their documentation.
Recommendation	**Agencies should inform their assessment of applications with independent expert advice to increase transparency and objectivity** *[DECC coast and estuary program].*
	DECC advises that a State Assessment Panel which incorporates independent expert advice is being used to assess applications for coastal and estuary funding in 2009-10.

2.3   Were decisions to make grants appropriate?

Our assessment	We found that the performance in deciding whether to make or refuse a grant was mixed. The Trust did it well, but the reasons for the Minister making DECC grants outside of program guidelines were not documented.
Criteria	The DPC Guide provides useful advice for approving grants.

Exhibit 15: The Guide's recommendations for approving grants
Separate the approval of grants from the assessment of proposals
Establish a transparent, objective and streamlined procedures with minimal administrative layers for approving grants
Base approval on the:
▪   grant's alignment to the program
▪   reasonableness of the proposal and its cost
▪   availability of funds
▪   full justification and documentation of the assessment.
Fully document any decision (with reasons) for varying the assessors recommendation
Advise successful and unsuccessful applicants at the same time and as quickly as possible after the decision to make or refuse a grant.

Source: Department of Premier and Cabinet 2006.

Exhibit 16 summarises how the approval of grants by the Trust and Minister measured up against the Guide.

Exhibit 16: Approval of grants by the Trust and Minister				
	The Trust	**DECC's Flood Plains**	**DECC's Coastal**	**DECC's Estuary**
Approval is separate from assessment	✓	✓	✓	✓
There are established and appropriate procedures for approval	✓	✓	✓ Since 2006	✓ Since 2006
Decisions to override the assessment are fully documented	✓	✓ Except for two	Not found	Not found

Source: Audit Office research 2009.

The Trust documents grant decisions well

The Trust clearly separates the assessment and approval process. The Trust committees recommend a list of prioritised projects for funding and the Trust decides whether or not to make grants.

Members of the Trust are the Minister, who is the chair, the Director-General of DECC, the Secretary of Treasury and representatives from the local government and the environmental sector.

The Trust discusses the recommendations, questions the committee and decides which proposals to fund. Generally the Trust endorses the committee's recommendations after deliberation. Between July 2002 and June 2007 the Trust made three grants additional to the committee recommendations. In each case:

- one of the Trust members proposed that the Trust consider funding a proposal that the committee had assessed as eligible but not prioritised. In two of the three instances the proponent was the then Minister
- after discussion the Trust decided to fund the proposal in addition to those recommended by the committee.

Exhibit 17: Trust grants made at variance with the assessment committee's recommendation			
Program	**Amount**	**Grant**	**Electorate**
Environmental Education Nov 2002	$93,376	Educational signage for Burrendong Arboretum	Orange marginal opposition
Environmental Education Nov 2002	$27,460	Education & liaison officer for Local Government & Shires Association	State wide
Trust- Urban Sustainability Program Dec 2006	$371,500	Camden Council's regional approach to education for sustainability	Camden safe government

Source: Audit Office research 2009.

Although the three grants were made in the months leading up to the state elections in March 2003 and 2007, we found no indication that the decisions were inappropriate. The Trust, including the Minister do not merely 'rubber-stamp' recommendations, but are responsible for distributing funds. The Trust discussion and the Minister's role were documented in accordance with the Trust guidelines and were consistent with its role as set out in the Environmental Trust Act 1998.

Ministerial decisions to make coastal, estuary and floodplain grants are poorly documented

In theory the process for assessing floodplain, coastal and estuary grants is separate from the approval. The programs assess and the Minister approves. In practice this distinction was not always evident.

Generally the floodplain program upholds the separation. The then Ministers approved hundreds of grants between June 2002 and July 2007 based on well-documented recommendations endorsed by the FMA. We found two cases where the then Ministers made grants following direct requests for funding from councils. outside the normal funding process.

These grants, shown in Exhibit 18, were made in 2004 and 2006 outside of an election campaign. The floodplain program scored both projects using the FMA methodology but the recommendations to fund these projects were not endorsed by the FMA as is the usual practice and the Ministers did not document their reasons for funding these projects ahead of other projects. The details of the grants were:

Exhibit 18: Floodplain grants made outside the normal process			
Program	Amount	Grant	Electorate
DECC- flood plains Apr 2004	$330,000	Upgrade Michigan Rd culvert	Toongabbie safe government
DECC- flood plains May 2006	$500,000	Liverpool CBD drainage works	Liverpool safe government

Source: Department of Environment and Climate Change 2009.

We found more cases of former Ministers making coastal and estuary grants in response to direct requests from councils and without agency advice. These decisions were poorly documented, which may be due in part to the disruption to record-keeping caused by the five program reorganisations that occurred before 2007.

Coastal and estuary processes have improved since grant criteria and procedures were clarified in 2006, but even in 2007 the then Minister approved grants that were not on the list recommended by the programs.

Over the 2002-2007 period, former Ministers spent $2.7 million of estuary program funding on 'other' projects which did not go through the normal processes of calling for and assessing funding applications (see exhibit 10). This reduced the funding available to councils who made applications through normal channels by around 20 per cent.

It is not inappropriate for Ministers to make grants to facilitate an immediate response to a pressing issue. For example, the then Minister provided $60,000 to Manly for Ocean Beach after direct negotiations with the council following a cliff collapse.

But the process needs to be managed carefully to ensure that the grants are made appropriately. When grant programs move from inviting applications from a wide pool to negotiating with a select few, it becomes even more important to ensure accountability and transparency. This is best achieved by clear documentation of criteria, processes and decisions.

The over-riding requirement is to ensure value for money for State expenditure consistent with the Government's overall objectives-

Recommendation   **The Minister should improve the transparency of DECC grants by publishing his or her directions to make grants outside of normal procedures.**

2.4   Were grant decisions timely?

Our assessment

We found that the timeliness of grant allocation did not always support effective funding and could threaten the delivery of worthwhile projects and the orderly allocation of funding.

Delays in awarding grants can deny the delivery of projects

DECC's processes were not aligned to councils' financial cycle and it took up to a year from the application to the offer of a grant. In some cases this was due to unnecessary processes. For example, the coastal and estuary programs made separate submissions, which could be months apart, for the Minster to approve the grant and then for the Minister to write to the successful applicant advising them of the grant offer. Since 2008/09, the approval and notification process has been combined in a single submission to the Minister.

Such delays frustrated applicants and the delivery of worthwhile projects. By the time the Minister offered grants many councils were unable to take them up. Some councils had redirected their own resources. Other councils could not progress the project by the end of June, as required by the terms of the grant, in the limited time remaining.

For example in some years councils failed to take up a third of floodplain grants offered. Confronted with a significant underspend, the programs reallocated funding to other projects in May and June. This creates risks around orderly planning and ensuring value for money. DECC advised that NSW Treasury has refused requests for multi-year grant funding that would assist the more orderly management of the coastal, estuary and floodplains programs.

DECC also advised that it intends to significantly reduce the time to process grants and making submissions to the Minister for the 2009-10 grants.

Recommendation

Agencies should:

- set themselves targets for the time taken to administer grants
- align their grant process with recipient's funding cycle by assessing applications earlier and approving grants promptly
- eliminate unnecessary processes such as separate approvals for making a grant and telling the successful applicant about it.

With one notable exception, the timing of the Trust's programs decisions was appropriate. This was achieved by staggering the roll-out of different programs throughout the year and the use of multi-year funding agreements for larger projects. However there have been significant delays around the roll-out of the Urban Sustainability Program.

Exhibit 19: Lack of clearly documented guidelines led to underspend and delays in the Urban Sustainability Program
The Urban Sustainability Program (USP) was established in 2006 providing $80 million over five years to improve the management of urban water, waste, bushland and creeks and environmental quality. The program provided comparatively large grants to individual and groups of councils working in partnership with their communities.

The program was rolled out in 2006 with some urgency. When the Trust approved the first round of grants in December 2006, it advised recipients that funding was conditional on them providing a business plan and having it approved by the Trust. The Trust did this to ensure that the funding was used effectively.

The process of finalising the business plans was a drawn-out process that took some councils up to nine months to get their business plan approved. The delay contributed to the Trust waiving performance milestones in the grant agreements in order to make the second grant payment before the end of the 2006-07 financial year.

The Trust addressed these issues in later rounds by:

- improving the information given to applicants and recipients about business planning and reporting on the outcomes of USP projects for grantees

- introducing a two-stage process with an Expression of Interest followed by a detailed application from suitable candidates

- using a risk-based approach on a case-by-case basis to determine whether it was appropriate to waive performance milestones when making payments.

Source: Environmental Trust 2009.

Recommendation   **Agencies should ensure new programs are properly planned before they are rolled out.**

3. Have grants achieved results?

At a glance

> **The key question we asked was: Have grants achieved results?**
>
> **Our assessment:**
>
> We found a number of factors affected whether grants were achieving results and that agencies could do better.
>
> Firstly, the Trust and DECC have a range of controls to ensure funding was used for the intended purpose. The agencies have not always implemented these controls well, although the Trust has been responsive in reviewing them. Some funding agreements were not clear about what had to be done for the money. Even where agreements specified payment on performance, such conditions were waived to enable budgets to be spent before the end of the financial year.
>
> Secondly, we found many grants delivered tangible benefits - homes were protected from floods and endangered and degraded habitats were restored and protected.
>
> The Trust has an adequate system, which it should build on, to monitor the outcome of individual grants. But DECC maintains little information on grant outcomes.
>
> Thirdly, only one of the ten grant programs reviewed has been independently evaluated since 2005. Both agencies recognise the need to review the effectiveness of their programs, and the Trust has committed to undertake evaluations.
>
> The agencies have little information on the aggregate outcomes achieved to date through their funding programs- for example, DECC cannot say how many homes have being protected from floods.
>
> However both the Trust and DECC advise that performance measures introduced last year will provide information so their grant programs can be evaluated in future years.

3.1 Do agencies ensure funding is used for the intended purpose and accounted for?

Our assessment

The Trust and DECC have a range of strategies to ensure funding was used for the intended purpose. The agencies have not always implemented these controls well, although the Trust has generally been responsive in reviewing them.

Criteria

Agencies should have controls to ensure that grant funding is used for the intended purpose and accounted for properly. The extent and rigour of these controls will be determined by the size and nature of the grant and the risks involved.

At a minimum, the recipient needs to show that the money was spent for the intended purpose. Where the grants are larger and the outcomes more important agencies need to set up timely monitoring systems, tie payment to clear performance measures and require the recipient to establish internal controls.

Exhibit 20: Control strategies			
Strategy	Agency	Policy	Practice
Clearly specify responsibilities in funding agreement	Both	✓	Mixed
Adjust controls according to risk	Trust only	✓	✓
Pay on performance milestones	Both	✓	Mixed
Require recipient to report on grant outcomes	Trust only	✓	✓
Visit sites to inspect progress	Trust only	✓	Not found
Recover grant money when recipient breaches funding agreement	Trust only	✓	Not found
Recover unspent grant money	Both	✓	✓
Make recipients who perform badly ineligible for future grants	Both	✓	✓
Require recipient to certify that grant used for intended purpose	Both	✓	Mixed

Source: Audit Office research 2009.

It is not always clear what is being funded

Both the DECC and the Trust set out the terms of a grant in standard funding agreements. Often these require the recipient to perform "as per the application". This can be ambiguous where applicants nominate multiple outcomes, outcomes that are not easily measurable ('improve community awareness") or outcomes where there is a lack of data about the baseline or existing conditions.

The Trust varies its controls according to the size and nature of the grant. For example, the EcoSchools program has simple streamlined controls for its $2,500 grants to schools. In contrast the Urban Sustainability program required business plans, specified deliverables and regular reporting for its million dollar grants.

Larger grants tend to be paid on milestones but these can be waived

Both DECC and the Trust specifies that larger grants are to be paid progressively against performance milestones. This can be an effective strategy to ensure accountability and the monitoring of progress.

The Trust requires recipients to report progress to be paid. This report includes information on achievements as well as expenditure. Trust technical staff recommend payment after conducting a desk review of the report. We found that the Trust policy of inspecting construction works over $25,000 is not complied with. The Trust advises that it is reviewing the requirement of inspections in line with its risk management approach.

The floodplain program requires councils to report progress in order to be paid. In contrast, the coastal and estuary programs often make progress payments on the verbal advice of regional staff with no documentation of project progress.

Even where the agencies tied payment to performance milestones we found that both DECC and the Trust sometimes waived such conditions in order to spend program budgets before the end of the financial year. Such practices can undermine the effectiveness of accountability controls and this risk needs to be managed. For its part, the Trust has reviewed the risk of non-performance when waiving milestones.

Grants are not usually recovered when terms are breached

Neither agency recovers grants from recipients who breach the terms of the funding agreement. This is true even of the Trust whose policy provides for recovery in such circumstances.

Exhibit 21: Funds not used for the intended purpose
The Trust paid an Aboriginal land holding company $14,475 as the first instalment of a grant to restore land. The Trust's monitoring found that the terms of the grant were breached, the specified work was not completed and over $5,000 was used to buy a computer and a camera. The Trust reviewed the grant and wrote to the recipient advising them that the grant was "unsatisfactorily completed" as some works according to the agreement were not carried out. The grant was terminated and the second instalment of $14,475 was not paid. No further action was taken.

Source: Environmental Trust 2009.

However, the Trust and DECC exclude recipients who breach funding agreements from accessing further grants. Both agencies make satisfactory completion of past grants a prerequisite for eligibility to new funding rounds.

And both agencies recover grant monies which are unspent.

Both agencies require the recipient to certify that the grant was used for the intended purpose. However only the floodplain program acquitted grants in a timely and thorough way. The other programs had significant backlogs. DECC's estuary program has 62 (57 percent) outstanding acquittal certificates.

Recommendation

Agencies should ensure performance milestones are achieved before making payments.

3.2   Are grants achieving results?

Our assessment

We found many grants had delivered tangible benefits - homes were protected from floods and endangered and degraded habitats were restored and protected.

The Trust has an adequate system, which it should build on, to monitor the outcome of individual grants. But DECC maintains little information on grant outcomes.

Some grants achieve tangible results

We found many grants delivered tangible benefits, such as:

- homes have been protected from floods
- acid-sulfate soils have been rehabilitated
- comprehensive plans have attracted federal funds to mitigate environmental hazards
- endangered and degraded habitats have been restored and protected
- foreshores rehabilitated and improved
- water quality improved.

Exhibit 22: Good estuary plans attract federal funding

In 2008 the Australian Government gave $20 million to councils to implement the Tuggerah Lakes Estuary Management Plan.

This Plan had been developed with $338,500 of grants from the estuary program between 2005 and 2007.

Exhibit 23: Trust grants improve habitats and reduce flood risk

In 2007 Wollongong Council improved habitats and reduced flood risks along the Cabbage Tree and Byarong Creeks by removing 440 exotic trees from 26 sites.

The work was funded with a $60,000 from the Trust.

Source: Department of Environment and Climate Change and Environmental Trust 2009.

It can be difficult to assess environmental outcomes

Both agencies advised that it is often difficult to identify the results of environmental grants. The complexity of ecosystems makes it difficult to assess the benefit of interventions and it can take decades for outcomes to become apparent. And it is hard to measure the impact of studies and plans.

The Trust reviews grant performance

Notwithstanding this, the Trust has established a process to assess the performance of each grant. On the project's completion, a technical officer reviews the reports provided by the grant recipient, assesses the grant as 'unsatisfactory', 'satisfactory' or 'highly successful' and records the result on the Trust's database.

The Trust uses this information to identify 'unsatisfactory' recipients as ineligible for future funding. It provides further funding to disseminate information about 'highly successful' grants so that their benefits might be enjoyed more widely.

Exhibit 24: Case study - the Trust builds on success	
	The Trust gave Northern Inland Regional Waste $75,000 for a mobile waste education trailer. The Trust assessed the project as effective and provided a further $27,500 to extend the tour of the trailer throughout New England and the North West region of NSW including visits to schools, shopping centres and the Tamworth Country Music Festival.
	The Trust gave the Dubbo Four Wheel Club $27,628 to promote environmentally sensitive four-wheel driving in the outback. This Trust assessed this project as effective and provided $36,000 to the Club in partnership with TAFE to deliver two training courses and to produce a glove-box booklet which was provided as an insert in the 4x4 Magazine in their October 2006 edition. The Trust has also had a request from a car company to print copies of the booklet to give away with all 4WDs it sells. TAFE plans to continue the training courses.

Source: Environmental Trust 2009.

The Trust should build on its grant reviews

The Trust needs to build on its system to review grant performance. It should ensure that reviews are completed in a timely manner and use the data to inform Technical Committees assessing grant applications about the past performance of different types of projects.

DECC keeps little information on grant outcomes

Compared to the Trust, DECC has little information about grant results.

DECC's regional staff know how grants are progressing through their liaison with local councils. They also review the plans and specifications completed with grant funding.

But DECC does not capture the information held by regional staff. Nor has it required councils to report on grant outcomes.

DECC advises that it will require councils to include details about achievements when they certify that the money was spent for the intended purpose.

Agency delays defer outcomes significantly

An important factor affecting the realisation of benefits is delay. All of the programs except DECC's floodplains has funded works that remain incomplete years later.

This problem was most notable in the estuary program. Of the 245 incomplete grants in June 2008, 54 per cent (132) had been issued in 2005 or earlier.

Risks of wastage

Exhibit 25: Case study of unrealised outcomes
In 1994 the estuary program gave the then Department of Public Works $83,000 to design the Audley fishway in the Royal National Park. The Park rejected the proposal on aesthetic grounds.
In 1999 the program then gave Department of Public Works $14,000 to design a fish pump which the Park rejected because of the high maintenance cost.
In 2006 the program gave the Department of Natural Resources $326,963 to build a rock ramp fishway which sank due to poor ground conditions, though the design was later used effectively at other sites.
In 2007 the then Minister approved a $300,000 grant to solve the problem and $7,764 of this had been spent at the time of our review.
Since 1994 the program has spent $431,727 on a fishway that has not yet been built.

Source: Department of Environment and Climate Change 2009.

Recommendation

All agencies should monitor grant outcomes and do so in a timely way.

3.3 Do agencies evaluate their grants programs?

Our assessment

Only one of the ten grant programs reviewed has been independently evaluated since 2005. Both agencies recognise the need to review the effectiveness of their program performance, and the Trust advises that it has commenced a schedule of rolling evaluations.

The agencies have little information on the aggregate outcomes achieved to date through their funding programs. However both the Trust and DECC advise that performance measures introduced in recent years will support effective evaluation of how their programs address Government priorities.

Criteria

Agencies should regularly evaluate grant programs to assess:
- whether program objectives continue to be relevant and reflect government priorities
- effectiveness of the program
- whether there are better ways of achieving program objectives
- the need to establish new programs or extend existing programs
- whether resourcing should remain at current levels, be increased reduced or discontinued.

Exhibit 26: The Guide recommends grant-makers evaluate programs
Develop performance measures for reviewing the program's objectives and outcomes when setting up the program
Systemically evaluate each program every three to five years for effectiveness, efficiency, economy and continuing appropriateness
Use independent reviewers who are not involved in the program to undertake the evaluation
Publish the outcomes of the evaluation.

Source: Department of Premier and Cabinet 2006.

There has been no evaluation of the programs over the last five years

Only one of the ten grant programs we looked at has been evaluated since 2005. In that year, the Trust commissioned the Australian Academy of Science to review the Research program. The Academy found the program effectively provided important work on:

- waste management methodology
- detection methods for acid sulfate soils
- analysis of air quality and aquatic pollutant sources
- understanding of water and energy consumption
- monitoring of logged forests
- pesticide practices for farms.

In September 2008, the Trust committed itself to undertake regular evaluations of each of its grant programs on a three to five year cycle.

The coastal, estuary and floodplain programs have not been evaluated partly because they have been managed by a succession of agencies. DECC recognises that an evaluation is overdue. It should be noted however, that work of these programs is well regarded nationally with:

- a Commonwealth report on Australian estuaries finding NSW to be more effective in preventing estuary degradation and rectifying poor practices than other States
- the Department of Transport and Regional Services demonstrating a return of $2.10 for every $1.00 invested in flood mitigation.

Recommendation

Agencies should regularly evaluate grants programs to see what is working and what can be done better. These evaluations should be published.

The agencies lack information on their performance as grant makers

At present, DECC and the Trust do not have readily available information on what their grant programs have achieved.

However, the agencies advise that they developed performance measures that will allow them to maintain such information in the future.

Criteria

In order to evaluate grant programs, agencies need appropriate performance information. Ideally performance measures should be developed when establishing a grant program.

The agencies have basic data on the number and value of grants made. The Trust also maintains data on the number of sites rehabilitated, restored, remediated and cleaned up and the proportion of its budget spent on administration. And DECC monitors the number of floodplain, coastal and estuary plans completed.

However the agencies have not had readily available data on the aggregate outcomes achieved which would assist the evaluation of their programs. For example DECC cannot say how many homes its grants have protected from hundred year floods or how many hectares of estuarine riverfront been rehabilitated.

In the last year, the agencies have introduced improved performance measures which should allow the capture of information about program performance.

In 2008 the Trust introduced a new Monitoring and Evaluation system that requires new grant recipients to report against key environmental; outcomes achieved with Trust funding in a standardised way- for example the volume of water saved, the quantity of materials recycled, or the number of plantings and the survival rate of those plants.

As the Trust collects this information about individual grants, it should improve the quality and completeness of its data base so it can report on aggregate program achievements.

Similarly the floodplain program is working with councils to develop a joint flood database that will enable data to be consolidated at a State level. This should inform flood management decisions and provide more information to assess the effectiveness of floodplain grants.

And DECC advises that it is implementing a system natural resource management reporting that will support coastal and estuary reporting on aggregate achievements.

We also found that the DECC programs had not monitored grant administration costs, while the Trust estimated its administration costs to be around two per cent of the value of grants made.

Exhibit 27: Case study - monitoring administration costs
Efficiency performance will vary between programs. For example:
▪ mature programs delivering grants that are similar should administer them quickly with minimal cost
▪ innovative programs take time and resources to get right as can be seen with the Urban Sustainability program which provided large grants to councils collaborating with one another in new ways
▪ programs that provide the recipient with technical advice and supervision as well as funding cost more to run.
Work by the National Audit Office of the UK and the Australian National Audit Office indicates simple mature programs can keep administration costs under five per cent. Whereas very complex programs might cost 35 per or more.
Where costs are high, agencies should consider whether the programs are delivering value or whether its objectives could be achieved in a different way. The NAO also cautions agencies about spending too little on grant administration. Grant-administrators need resources to promote their program to potential applicants, monitor grants, see what has been achieved and undertake regular evaluation.

Source: Audit Office research 2009.

Recommendation   **As a matter of priority agencies should build on their initiatives to collect meaningful information about the aggregate outcomes achieved through their funding.**

Appendices

Appendix 1   About the audit

Audit Objective   The audit examined how well environmental grants are administered.

Lines of Inquiry   In reaching our opinion against the audit objective, we sought to answer the following questions:
1.   are grant programs aligned to government priorities?
2.   are grants allocated appropriately?
3.   have grants achieved results?

Audit Criteria   In answering the lines of inquiry, we used the following audit criteria (the 'what should be') to judge performance. We based these standards on our research of current thinking and guidance on better practice. Criteria are discussed, and wherever possible, agreed with those we are auditing.

For line of inquiry 1, we assessed the extent to which:
▪   grant programs are aligned to the core business of agencies
▪   grants are coordinated between agencies
▪   agencies have developed clear program guidelines and criteria.

For line of inquiry 2, we assessed the extent to which:
▪   the distribution of grants varied according to the political and regional characteristics.
▪   agencies assess grant proposal appropriately
▪   decisions to make grants were timely and appropriate.

For line of inquiry 3, we assessed the extent to which:
▪   agencies ensured funds were used for the intended purpose
▪   grant programs were evaluated.

Audit scope   The audit focused on seven grant programs administered by the Environmental Trust and three programs administered by the Department of Environment and Climate Change.

This audit did not examine:
▪   grants made to other NSW government agencies.

Audit approach   We acquired subject matter expertise by:
▪   interviewing staff involved in developing grant policy and procedures
▪   interviewing staff responsible for administering grant programs
▪   reviewing agency corporate planning documents
▪   reviewing individual grant program and projects files.

We also researched grant management approaches in other jurisdictions to identify best practice examples. We examined the following jurisdictions:
▪   Australia including states and territories
▪   New Zealand
▪   United Kingdom.

Audit selection   We use a strategic approach to selecting performance audits to reflect issues of interest to Parliament and the community. Details of our approach to selecting topics and our forward program are on our website.

Audit methodology   Our performance audit methodology is designed to satisfy Australian Audit Standards AUS 806 and 808 on performance auditing, and to reflect current thinking on performance auditing practice. We produce audits under a quality management system certified to International Standard ISO 9001. Our processes have also been designed to comply with the auditing requirements specified in the *Public Finance and Audit Act 1983*.

Acknowledgements   We gratefully acknowledge the co-operation and assistance provided by the Departments Environment and Climate Change and the Environmental Trust. We particularly acknowledge the assistance provided by the program managers of each of the programs we reviewed.

Audit team   Michael Johnston led this performance audit and was assisted by Angelina Pillay. Sean Crumlin provided direction and quality assurance.

Audit cost   Including staff costs, printing costs and overheads, the estimated cost of the audit is $291,000.

Performance Audits by the Audit Office of New South Wales

Performance Auditing

What are performance audits?

Performance audits determine whether an agency is carrying out its activities effectively, and doing so economically and efficiently and in compliance with all relevant laws.

Performance audits may review a government program, all or part of a government agency or consider particular issues which affect the whole public sector.

Where appropriate, performance audits make recommendations for improvements.

If you wish to find out what performance audits are currently in progress, visit our website at www.audit.nsw.gov.au.

Why do we conduct performance audits?

Performance audits provide independent assurance to Parliament and the public that government funds are being spent efficiently and effectively, and in accordance with the law.

Performance audits seek to improve the efficiency and effectiveness of government agencies so that the community receives value for money from government services.

Performance audits also assist the accountability process by holding managers to account for agency performance.

What are the phases in performance auditing?

Performance audits have three key phases: planning, fieldwork and report writing.

During the planning phase, the audit team will develop audit criteria and define the audit field work.

At the completion of field work we will meet with agency management to discuss all significant matters arising out of the audit. Following this, we will prepare a draft performance audit report.

We meet with agency management to check that facts presented in the report are accurate and that recommendations are practical and appropriate. Following this, a formal draft report is provided to the CEO for comment. The relevant Minister is also provided with a copy of the final report. The final report, which is tabled in Parliament, includes any comment made by the CEO on the conclusion and the recommendations of the audit.

Depending on the scope, performance audits can take several months to complete.

Copies of our performance audit reports can be obtained from our website or by contacting our Office.

How do we measure an agency's performance?

During the planning phase, the team develops the audit criteria. These are standards of performance against which the agency or program is assessed. Criteria may be based on best practice, government targets, benchmarks, or published guidelines.

Do we check to see if recommendations have been implemented?

Agencies are requested to report actions taken against each recommendation in their annual report so that we can monitor progress.

The Public Accounts Committee (PAC) may conduct reviews or hold inquiries into matters raised in performance audit reports. These inquiries are usually held 12 months after the report is tabled.

Who audits the auditors?

Our performance audits are subject to internal and external quality reviews against relevant Australian and international standards. This includes ongoing independent certification of our ISO 9001 quality management system.

The PAC is also responsible for overseeing the activities of the Audit Office and conducts a review of our operations every three years.

Who pays for performance audits?

No fee is charged for performance audits. Our performance audit services are funded by the NSW Parliament and from internal sources.

Further information

Further information can be obtained from our website www.audit.nsw.gov.au or by contacting us on 9275 7277.

Performance Audit Reports

No	Agency or Issues Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
190	Department of Environment, Climate Change and Water NSW Environmental Trust	*Environmental Grants Administration*	August 2009
189	NSW Attorney General's Department NSW Department of Health NSW Police Force	*Helping Aboriginal Defendants through MERIT*	5 August 2009
188	NSW Department of Health	*Tackling Cancer with Radiotherapy*	23 June 2009
187	Roads and Traffic Authority of NSW	*Improving Road Safety - Heavy Vehicles*	13 May 2009
186	Grants	*Grants Administration*	6 May 2009
185	Forests NSW	*Sustaining Native Forest Operations*	29 April 2009
184	NSW Police Force	*Managing Injured Police*	10 December 2008
183	Department of Education and Training	*Improving Literacy and Numeracy in NSW Public Schools*	22 October 2008
182	Department of Health	*Delivering Health Care out of Hospitals*	24 September 2008
181	Department of Environment and Climate Change	*Recycling and Reuse of Waste in the NSW Public Sector*	11 June 2008
180	Follow-up of 2003 Performance Audit	*Protecting Our Rivers*	21 May 2008
179	NSW Office of Liquor, Gaming and Racing; NSW Police Force	*Working with Hotels and Clubs to reduce alcohol-related crime*	23 April 2008
178	Greyhound and Harness Racing Regulatory Authority	*Managing the Amalgamation of the Greyhound and Harness Racing Regulatory Authority*	3 April 2008
177	Office of the Director of Public Prosecutions	*Efficiency of the Office of the Director of Public Prosecutions*	26 March 2008
176*	Better Practice Guide	*Implementing Successful Amalgamations*	5 March 2008
175	Department of Commerce Department of Primary Industries	*Managing Departmental Amalgamations*	5 March 2008
174	Department of Education and Training	*Ageing workforce - Teachers*	13 February 2008
173	NSW Police Force	*Police Rostering*	5 December 2007
172	Department of Primary Industries	*Improving Efficiency of Irrigation Water Use on Farms*	21 November 2007
171	Department of Premier and Cabinet Department of Commerce	*Government Advertising*	29 August 2007
170	RailCorp	*Signal Failures on the Metropolitan Rail Network*	15 August 2007
169	NSW Police Force	*Dealing with Household Burglaries*	27 June 2007
168	Ministry of Transport	*Connecting with Public Transport*	6 June 2007
167	Follow-up of 2001 Performance Audit: Ambulance Service of New South Wales	*Readiness to Respond*	6 June 2007

No	Agency or Issues Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
166	Follow-up of Performance Audit Department of Education and Training	*Using Computers in Schools for Teaching and Learning*	9 May 2007
165	Homelessness	*Responding to Homelessness*	2 May 2007
164	Department of Juvenile Justice NSW Police Force	*Addressing the Needs of Young Offenders*	28 March 2007
163	Legal Aid Commission of NSW	*Distributing Legal Aid in New South Wales*	13 December 2006
162	NSW Health	*Attracting, Retaining and Managing Nurses in Hospitals*	12 December 2006
161	Follow-up of 2003 Performance Audit	*The Police Assistance Line*	6 December 2006
160	NSW Health	*Helping Older People Access a Residential Aged Care Facility*	5 December 2006
159	NSW Health	*Major Infectious Disease Outbreaks: Readiness to Respond*	22 November 2006
158	Department of Education and Training	*Educating Primary School Students with Disabilities*	6 September 2006
157	Roads and Traffic Authority	*Condition of State Roads*	16 August 2006
156*	Fraud Control	*Fraud Control Improvement Kit: Meeting Your Fraud Control Obligations*	20 July 2006
155	Follow-up of 2002 Performance Audit	*Regulating the Clearing of Native Vegetation*	19 July 2006
154	Follow-up of 2002 Performance Audit	*Managing Sick Leave in NSW Police and the Department of Corrective Services*	June 2006
153	Performance Information	*Agency Use of Performance Information to Manage Services*	21 June 2006
152	Roads and Traffic Authority	*The Cross City Tunnel Project*	31 May 2006
151	Department of Corrective Services	*Prisoner Rehabilitation*	24 May 2006
150	Follow-up of 2000 Performance Audit	*Fare Evasion on Public Transport*	26 April 2006
149	Agency Collaboration	*Agencies Working Together to Improve Services*	22 March 2006

* Better Practice Guides

Performance audits on our website

A list of performance audits tabled or published since March 1997, as well as those currently in progress, can be found on our website www.audit.nsw.gov.au.

If you have any problems accessing these reports, or are seeking older reports, please contact our Office Services Manager on (02) 9275 7116.