

AUDITOR-GENERAL'S REPORT PERFORMANCE AUDIT

Grants Administration



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 **Grants Administration**.

A handwritten signature in black ink that reads 'Peter Achterstraat'.

Peter Achterstraat
Auditor-General

Sydney
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Foreword

Each year the NSW Government spends over \$5 billion dollars in grants to fund services, invest in communities and support worthy causes. These grants range from very small community grants to large amounts for health and disability providers.

Some grants provide general support to the community but most have specific agreed goals.

In the current economic conditions, it is important that grants are made wisely and get the best value for the taxpayers' dollar.

This report identifies where grants go and what recipients think of the grant process.

This is the first of two reports on grants in NSW. The second report will look at environmental grants to see whether they are aligned to government objectives, allocated appropriately and benefit the State.

Peter Achterstraat
Auditor-General

May 2009

Executive summary

The focus of our audit

In 2007-08 New South Wales spent \$5.5 billion or 12 per cent of general government expenditure on grants that were neither subsidies nor inter-agency payments.

This audit asks how grants are defined, where grants went and what recipients think of the grant system. It will be followed by a second report that examines specific grant programs.

Grants mean different things to different people. Traditionally a grant was a gift where the grant maker did not expect to receive a benefit. More typically, a grant is funding for a specified purpose directed at achieving goals and objectives consistent with government policy.

Most NSW grant spending funds social, health, transport and education services. A large number of smaller grants fund community activities and a range of other activities such as research and environmental works.

Audit opinion

In 2006 the Department of Premier and Cabinet (DPC) coordinated the release of a *Good Practice Guide to Grants Administration* to encourage transparency and coordination, less red-tape and effective evaluation. Agencies need to spend wisely to maximise the benefits to the State.

The Australian National Audit Office has used electoral analysis as a consistent way of examining where grants go. We used such analysis to look at the distribution of 26,800 grants worth \$5.2 billion made by five agencies over five years. Ninety-two per cent of this was paid by the Department of Ageing, Disability and Home Care (DADHC) and the Department of Community Services (DoCS). Some agencies have concerns about the electoral analysis of their data and DADHC maintains that its grants cannot be accurately mapped to electorates.

We found no significant difference in the funding of government and opposition electorates. However, more money was given to electorates that were safely held by the major parties. These seats received \$1.29 for every dollar given to marginal and independent seats with government marginals getting the least. Electorates also receive different levels of funding according to which region they are in.

Such variations may reflect valid agency objectives such as meeting State Plan targets or addressing socio-economic disadvantage. But while agencies publish who gets what, they do not adequately evaluate or explain what grant programs have achieved. As a result, there is a risk that New South Wales may not get the best value for its spending.

We recommend that agencies regularly evaluate their grant programs and publish the results. We are not suggesting that agencies have to justify every grant electorate by electorate, but they should explain what programs achieved, why funding was distributed the way it was and how it could be made more effective. Agencies generally support the need for improved transparency.

Agencies have to balance a range of factors when managing grants including efficiency and the objectives of the specific program. One factor agencies should consider is the impact on grant recipients. We surveyed 65 councils and 101 non government organisations (NGOs) to get their views about NSW grants. This self-selected sample, which represents 40 per cent of councils but less than four per cent of NGOs, indicates some areas of concern.

The respondents are positive about what grants achieve. But many are dissatisfied with the lack of information about available funding, how applications are assessed and why applications fail. Less than one in five say decisions to approve or reject grant requests are fair and transparent. And less than one in five agree that grants are directed at the areas of highest need. There is a risk that some communities may miss out on worthwhile projects.

Most respondents say reporting requirements are reasonable and that agencies are clear about what has to be reported. But many respondents identify how red-tape can interrupt and frustrate their operations.

Agencies need to achieve an appropriate balance between accountability, transparency and value for money. Risk has to be managed and multi-million dollar grants require more rigorous controls than modest grants to community groups.

It is encouraging that some agencies are improving their grant administration. For example, DoCS is standardising grant applications and reports, while the Environmental Trust has published objective evaluations of some programs. Agencies should consider extending these reforms and those achieved in other jurisdictions.

Recommendations

We make a number of recommendations that seek to:

- inform the community about available funding and how to apply
- reduce red-tape
- ensure the State gets the best value from its grant spending.

Specifically, grant-making agencies should:

1. manage risk and streamline procedures to the minimum needed to ensure accountability and value for money. Pages 14 and 34
2. improve transparency by publishing in an accessible and timely way:
 - a rolling calendar of grants funding expected to be available in the next 12 months Page 30
 - their procedures for making grant decisions Page 31
 - Ministerial Directions to make or refuse grants outside of normal procedures Page 31
 - evaluation of what grant programs achieved and how the distribution of funds has supported government objectives. Page 21
3. set up timely monitoring systems, tie payment to clear performance measures and require the recipient to establish internal controls. Page 14
4. tell unsuccessful applicants why their proposal was rejected. Page 32
5. reduce red-tape by using:
 - standard terminology when dealing with grant recipients Page 37
 - three or four year agreements for recurrent services and ongoing projects Page 38
 - targets to better manage the time taken to process grants Page 38
 - integrated funding and management of multiple grants. Page 35

For its part, the Department of Premier and Cabinet (DPC) should, by June 2010:

6. review its Guide and amend it to provide:
 - more assistance for planning, evaluating and reporting on programs, designing funding agreements and managing risk Page 13
 - consistent standard terminology for agencies dealing with grant recipients. Page 37
7. encourage agencies to regularly evaluate programs and publish the results. Page 29
8. encourage agencies to use web-technology to:
 - make it easier to apply for grants Page 32
 - improve the information available to grant makers and recipients
 - streamline interactions between grant makers and recipients.

Key audit findings

Chapter 1

What are grants?

Grants mean different things to different people. Traditionally a grant was a gift where the grant maker did not expect to receive a benefit. More typically, a grant is funding for a specified purpose directed at achieving goals and objectives consistent with government policy.

Most NSW grant spending funds human, transport and other services to the community. A large number of smaller grants fund community activities and a range of other activities such as research and environmental works.

The Department of Premier and Cabinet (DPC) issued a good practice guide (the Guide) in 2006 to improve grant management across government. This encourages agencies to manage grants with more transparency, less red-tape and greater evaluation and coordination.

More needs to be done to ensure grant makers spend wisely and get value for money. There is a risk that agencies may not have the control they need. Where outcomes are important and substantial funds are involved, agencies should set up timely monitoring systems, tie payment to clear performance measures and require the recipient to establish internal controls. At the same time agencies need to ensure that less risky funding is not tied up in red-tape and a one size fits all approach (see Chapter Three).

We recommend that DPC review the Guide to provide more assistance to agencies planning, evaluating and reporting on programs, designing funding agreements and managing risk.

Chapter 2

Where did the money go?

The Government does not have a centralised picture of overall grant distribution to inform resource allocation and help ensure that grants are well spent.

To get an indication of where grants went, we followed the lead of the Australian National Audit Office and examined internal agency records to assess the electoral and geographic distribution of grants.

We looked at grants made by NSW Health, the Environmental Trust (ET), the Departments of Community Services (DoCS), Ageing, Disability and Home Care (DADHC) and Environment and Climate Change (DECC).

This consisted of 26,800 grants worth \$5.2 billion or about 20 per cent of government grants made between 2002-03 and 2006-07. Some agencies had concerns about analysing their data electorally and DADHC maintains that its grants cannot be accurately mapped to electorates.

Nevertheless on the best information available, we found no significant difference in the way these grants were distributed to government and opposition electorates. We did find that safe electorates held by the major parties got \$1.29 for every dollar received by marginal and independent seats. Regions also received different levels of funding.

Agencies can have good reasons for funding electorates differently. These vary depending on the specific program and can include socioeconomic need or the particular population, resources, infrastructure or environmental and heritage features being addressed.

While agencies publish who gets grants and how much they get, most do not publish robust evaluations that explain what grant programs have achieved and how the distribution of funds has made good use of public money.

We recommend that agencies regularly evaluate their grant programs and publish the results. This would allow the public to assess for itself the integrity and effectiveness of NSW grants.

Chapter 3

What do recipients think of the grant system?

This chapter presents the views of 65 councils and 101 non government organisations (NGOs) who volunteered to complete a survey on NSW grants. The respondents, who account for 40 per cent of councils and under four per cent of NGOs, raise a number of concerns about how grant managers manage and communicate their grant programs.

Some of the agencies, whose grants distribution we examined in the previous chapter, are concerned this chapter will be seen as all about them. It is not. We asked recipients about grants made by all NSW agencies. The findings in this chapter are general in nature except where reference is made to specific agencies.

Our respondents are very positive about what grants achieved, but many have concerns about transparency and red-tape.

Transparency means citizens should be able to "see through" what goes on when public officials act. The NSW *communitybuilders* website is meant to be a single point of information about NSW grants, but agencies are not posting comprehensive information about funding that can be applied for. Only a minority of respondents agree that agencies provide timely information on available grants, advice on how applications are assessed and the reasons for rejection. Less than one in five say decisions to approve or reject grant requests are fair and transparent or agree that grants are directed at the areas of highest need. There is a risk that some communities may miss out on worthwhile projects.

Red-tape refers to inconvenient and unnecessary procedures.

It is proper for agencies to require applicants to document grant requests and for recipients to report on what they did with the money. Most respondents say reporting requirements are reasonable.

But respondents indicate that red-tape can interrupt and frustrate their work. Less than a third agree that the amount of work to apply for grants is reasonable and that reporting requirements are consistent across programs. Fewer than one in four agree that decisions to approve grants are timely and only one in ten say there is coordination between grant-making agencies (including the Commonwealth). Some respondents indicate that agencies create unnecessary paperwork by requiring annual applications for recurrent funding.

Grant makers need to balance efficient process, transparency, accountability and value for money. This balance will depend on the risks of the program, the amounts involved and the recipient.

The 2006 Department of Premier and Cabinet DPC Guide provides advice on good practice and provides templates for managing grants. We recommend that DPC review the Guide and that agencies:

- use consistent, standard terminology with grant recipients
- electronically publish a rolling calendar of funding expected to be available over the next 12 months
- increase the use of technology to streamline applications and reporting.

Response from the Department of Premier and Cabinet

Thank you for your letter providing the Performance Audit Report of Grants Administration.

It is pleasing to see the Performance Audit finds there is no evidence of electoral bias in the allocation of grants in New South Wales. I note your findings that similar levels of funding are provided for government and opposition seats; safe electorates held by major parties receive more funds while marginal Government seats received the least funds.

Generally agencies do not routinely collect data on an electoral basis. For example, the Department of Ageing Disability and Home Care maps their funding to administrative centres rather than electorates. Many large non-government organisations submit their applications from their head office but provide services around the State. The grants are recorded against the administrative location rather than the electorates in which the services are provided. The Performance Audit has sought to adjust for this by excluding grants to NGOs totalling \$1.5 billion from the analysis which is a material consideration.

As acknowledged by the Performance Audit, agencies can have good reasons for funding electorates differently. Funding programs often have a specific geographic focus such as coastal or remote areas, places of concentrated disadvantage or of heritage sites. Agencies may also strive for equity in overall service distribution by balancing direct government and NGO service components which means grants are only one element of the service delivery picture.

I welcome the Performance Audit's emphasis on achieving a balance between competing demands. On the one hand there is a need to ensure that the levels of accountability and controls are appropriate to achieve value for money in the use of public funds. On the other applicants seek more information about grant processes, less 'red-tape', and greater coordination between agencies that provide grants. There are opportunities for agencies to improve transparency about what their funding programs achieved.

The Performance Audit acknowledges the Good Practice Guide for Grants Administration released in 2006. It may be appropriate that the Guide be updated to include a greater focus on a risk management approach to grants administration. It is encouraging to see the progress achieved by individual agencies in adopting good practice and their readiness to continue to improve.

Thank you for the opportunity to respond to the Performance Audit Report.

(signed)

*John Lee
Director General*

Dated: 8 April 2009

1 What are grants?

At a glance

The key question we wanted to answer was:

What are grants?

Our assessment: Grants mean different things to different people. Traditionally a grant was a gift where the grant maker did not expect to receive a benefit. More typically, a grant is funding for a specified purpose directed at achieving goals and objectives consistent with government policy.

Most NSW grant spending funds human, transport and other services to the community. A large number of smaller grants fund community activities and a range of other activities such as research and environmental works.

The Department of Premier and Cabinet (DPC) issued a good practice guide (the Guide) in 2006 to improve grant management across government. This encourages agencies to manage grants with more transparency, less red-tape and greater evaluation and coordination.

More needs to be done to ensure grant makers spend wisely and get value for money. There is a risk that agencies may not have the control they need. Where outcomes are important and substantial funds are involved, agencies should set up timely monitoring systems, tie payment to clear performance measures and require the recipient to establish internal controls. At the same time agencies need to ensure that less risky funding is not tied up in red-tape and a one size fits all approach (see Chapter Three).

We recommend that DPC review the Guide to provide more assistance to agencies planning, evaluating and reporting on programs, designing funding agreements and managing risk.

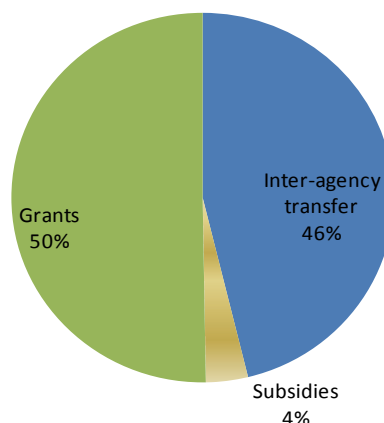
1.1 What are grants?

Grants are one of the three ways government spends. Government also spends by contracting to buy goods and services and undertaking activities with its own staff.

The term grant is used to refer to a wide range of transactions. In 2006-07 NSW agencies classified over \$10 billion of spending as grants.

A range of payments are called grants

Exhibit 1: Breakdown of \$10 billion expenditure described as grants in 2006-07



Source: The Audit Office of New South Wales research 2008.

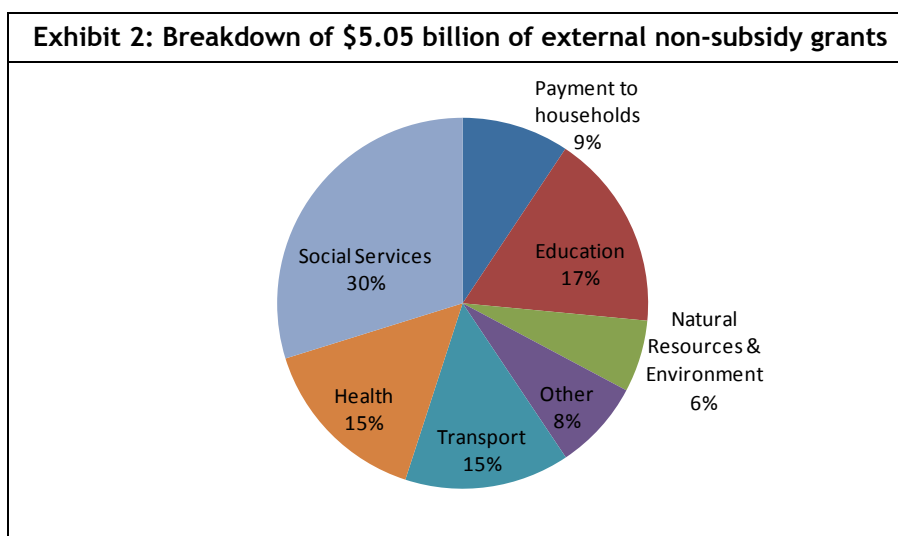
Half of ‘grants’ were subsidies and inter-agency transfers

Half of the \$10 billion consisted of subsidies and transfers between NSW government agencies. The largest of these amounts were for railway operations and infrastructure.

This audit looks at \$5.05b of non-subsidy grants to external parties

This audit looks at the rest. In 2006-07 the Government paid \$5.05 billion or 12 per cent of general government expenditure as grants to external parties. This represents \$750 paid for every man, woman and child in New South Wales. Grant spending has grown by more than 50 per cent since 2000-01.

Exhibit 2 breaks down the \$5.05 billion by sector.



Source: The Audit Office of New South Wales research 2008.

Eight programs paid \$0.47 billion to eligible households that met pre-determined criteria (The Treasury does not classify these payments as subsidies). The biggest of these programs supported first homebuyers and victims of natural disasters.

Agencies paid the remaining \$4.58 billion of grants through 164 grant programs to individuals, NGOs and private firms. Most grants were made with the expectation that the recipient would do something for the money.

Most grants spending funds services

Over 70 per cent of this amount funded services. The 15 largest programs paid \$3.3 billion to organisations providing hospital, disability, bus, educational and community services to various communities.

Smaller grants support a wide range of purposes

Agencies make many smaller grants for a range of purposes including:

- community, cultural and recreational activities
- infrastructure, environmental and heritage projects
- research
- regional development
- activities to support initiatives such as road safety, industry restructure and drought relief.

Community grants provide modest support to local activities and require little of the recipients other than to continue their normal activities and certify that the money was properly spent. But agencies increasingly expect the recipients of grants for other purposes to specify what they will achieve with the money. The more that outputs are specified, the more grants resemble performance-based contracts.

Grants also differ in the way that they are made. Some are contestable. That means agencies advertise and select recipients on merit against published criteria. Others are non-contestable and are negotiated between the agency and the recipient. Recurrent grants are often non-contestable.

1.2 New South Wales framework

The Government initiated grant reform in 2006

The Government recognised the need for grant reform in the Premier's *Economic and Financial Statement* of February 2006. The Government:

- fully supported the move to performance-based contracts, longer-term funding and a focus on service delivery to end-users
- agreed in principle to reduce the number of grant-making agencies so as to reduce administrative costs, duplication and the complexity of funding arrangements
- recognised the need for performance information, about the full range of grants expenditure, which could be monitored to ensure value for money. It was important that this was done in a way that minimised the cost to agencies.

There has been progress

In conjunction with the human services agencies, the Department of Premier and Cabinet (DPC) issued the *Good Practice Guide to Grants Administration* (the Guide) in 2006 to assist agencies making grants.

The Guide recommends that grant makers take a risk management approach, spend wisely and get value for money when making grants. It encourages greater coordination within and between agencies, promotes the use of three to four year performance-based agreements for ongoing services and provides a framework for agencies to:

- plan and design a grants program
- promote a grants program
- receive and process grants applications
- offer grants and enter into a funding agreement
- monitor and acquit grants
- evaluate a grants program.

There is no performance information for Government to monitor the effectiveness of the full range of grants expenditure. However, agencies (particularly the Departments of Community Services and Ageing Disability and Home Care) are improving the way they fund service delivery. The greatest improvement has occurred in respect of new grant programs.

The Government has also reduced the number of grant-making agencies through restructures and amalgamations, although more than 30 agencies still make grants.

More can be done to assist grant makers	<p>The Guide's principles are appropriate, but it does not provide much explicit guidance to grant makers about how to manage different funding arrangements.</p> <p>Some other jurisdictions provide greater guidance. The Commonwealth:</p> <ul style="list-style-type: none">▪ gives advice about planning grant programs and the factors to consider when assessing whether grants are the best way to achieve results▪ provides checklists for grant managers planning programs, selecting proposals, managing grants and evaluating programs▪ recognises that grant managers face resource constraints and that appropriate, documented risk management can help streamline processes while ensuring value for money and accountability. <p>Similarly, New Zealand gives practical guidance on establishing controls to manage the risks associated with different types of grants and funding.</p>
Recommendation	<p>We recommend that DPC review its Guide and provide more assistance to agencies planning, evaluating and reporting on programs, designing funding agreements and managing risk.</p>
Agencies may not have appropriate controls	<p>One reason DPC should review the Guide is that there is a risk that agencies are not establishing appropriate controls for their funding arrangements.</p> <p>Agencies may not have the control they should when making large grants to fund services. We found a perception amongst some agency staff that grants are not enforceable in the same way that contracts are. Agencies unhappy with a recipient's performance may end the grant and stop further payment, but do not usually recover monies paid.</p> <p>Agencies are not absolved from the responsibility to be accountable for public money because it is paid as a grant. Agencies need to tailor funding arrangements and the level of planning, authorisation, documentation and management according to the risk involved. They should appropriately specify the terms and conditions of the funding agreement and acquittal to maximise the desired outcomes and minimise undesired effects.</p> <p>Grants that provide modest support and recognition to local organisations need impose few obligations on the recipients other than to certify that they spent the money properly. In Chapter Three we discuss the concern of grant recipients that less risky funding can be tied up in red-tape and a one size fits all approach.</p>

Make payment conditional upon performance

As grants get bigger and performance becomes more important, detailed funding agreements are needed to ensure value for money. Agencies should specify what is to be done with the money and to establish timely monitoring systems. Agencies can manage performance by making payment subject to significant conditions. Common conditions include:

- making periodic payments depending on satisfactory performance
- requiring the recipient to commit its own funds before payment
- requiring the recipient to use approved personnel and contractors
- requiring the recipient to establish effective governance and internal controls.

Some agencies are already doing this, particularly in relation to recently established grants. For example, the Department of Community Services' new early intervention program defines performance levels, provides guidance for governance and internal controls and makes periodical payments based on performance.

Recommendation

We recommend that grant-making agencies:

- manage risk and streamline procedures to the minimum needed to ensure accountability and value for money
- (where outcomes are important and significant funds are involved) set up timely monitoring systems, tie payment to clear performance measures and require the recipient to establish internal controls.

2 Where did the grants go?

At a glance

The key question we wanted to answer was:

Where did the grants go?

Our assessment: The Government does not have a centralised picture of overall grant distribution to inform resource allocation and help ensure that grants are well spent.

To get an indication of where grants went, we followed the lead of the Australian National Audit Office and examined internal agency records to assess the electoral and geographic distribution of grants.

We looked at grants made by NSW Health, the Environmental Trust (ET), the Departments of Community Services (DoCS), Ageing, Disability and Home Care (DADHC) and Environment and Climate Change (DECC).

This consisted of 26,800 grants worth \$5.2 billion or about 20 per cent of government grants made between 2002-03 and 2006-07. Some agencies had concerns about analysing their data electorally and DADHC maintains that its grants cannot be accurately mapped to electorates.

Nevertheless on the best information available, we found no significant difference in the way these grants were distributed to government and opposition electorates. We did find that safe electorates held by the major parties got \$1.29 for every dollar received by marginal and independent seats. Regions also received different levels of funding.

Agencies can have good reasons for funding electorates differently. These vary depending on the specific program and can include socioeconomic need or the particular population, resources, infrastructure or environmental and heritage features being addressed.

While agencies publish who gets grants and how much they get, most do not publish robust evaluations that explain what grant programs have achieved and how the distribution of funds has made good use of public money.

We recommend that agencies regularly evaluate their grant programs and publish the results. This would allow the public to assess for itself the integrity and effectiveness of NSW grants.

2.1 Why look at where the money goes?

Knowledge of where funding goes is needed to monitor probity and the effective use of public money. The Independent Commission Against Corruption (ICAC) reports that over half of NSW grant-making agencies identify grant management as a leading corruption risk.

The best defence against perceptions of undue influence is transparency. Agencies should explain the reasons for their funding distribution to Parliament and the public.

2.2 Where did the money go?

Our assessment

The Government does not have a picture of overall grant allocation. Our analysis of a large sample of grants indicates that more money went to electorates that were safely held by the major parties and that there was variation in regional funding.

NSW does not have a picture of overall grant allocation

In Annual Reports agencies publish the names of their grant recipients and the amounts provided. This minimum reporting gives little indication of where grants go or which communities benefit from funding. Some agencies do more. For example, the Ministry of Transport publishes a map which graphically depicts the volume of funding going to different communities.

In 2006 the Government recognised the need for performance information about the full range of grants expenditure. As an independent report argued at the time:

better information would help inform resource allocation, allow the Government to move away from often out-dated funding systems, and to reallocate funds from existing to emerging initiatives.

[NSW Audit of Expenditure and Assets Report].

However, NSW still lacks detailed and consistent data on grants that would give a good picture of overall funding distribution and help Parliament and the public to see if the grants were effective.

The Australian National Audit Office (ANAO) advised us that most agencies in Australia keep electoral data on grants. This information, which is not publicly available, is used to alert Ministers and local members so they can promote upcoming funding to their communities.

In its *Better Practice Guide for Grants*, the ANAO put federal agencies on notice that it will increasingly look at the electoral and geographic distribution of funding when examining grant programs.

We looked at a large sample to get an indication of where grants went

We adopted the ANAO approach towards the electoral analysis of funding. We looked at a large sample of grants to get an indication of how grants were distributed. With the support of the DPC we collected data from NSW Health, the Environmental Trust, DoCS, DADHC and DECC.

We chose these agencies because they had electoral data for 28,000 grants worth \$6.7 billion made over the last five years.

Some of the agencies expressed concerns over our use of their data.

Firstly, they said their data were not prepared for public reporting. Despite this, we believe there should be greater transparency and that data indicative of performance should be scrutinised.

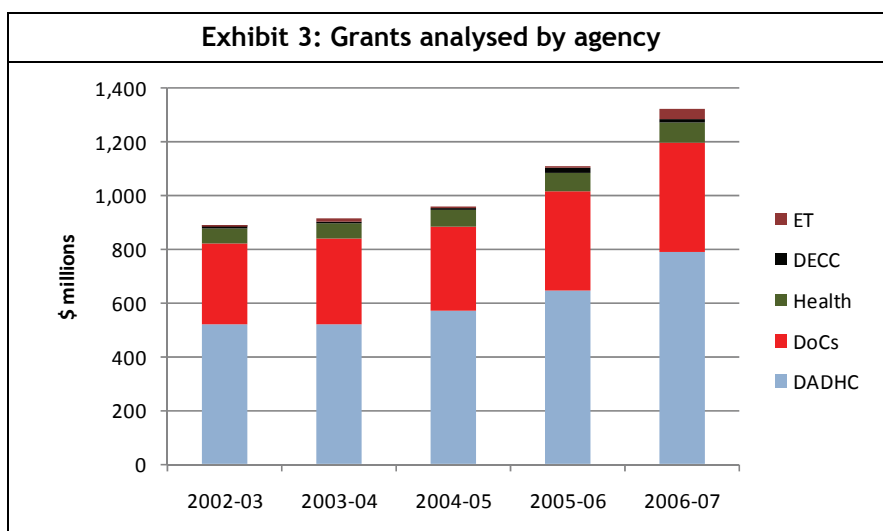
Secondly, they felt it was not appropriate to look at the electoral distribution of longstanding funding to organisations because such funding is inherently non-discretionary. Our view is that the funding of services makes up over 70 per cent of grant spending and should be reviewed. Agencies need to be able to account for and explain historical funding programs.

Thirdly, they said their data did not always reflect which communities benefit from grants since funded organisations often work outside the electorate in which they are based. We sought to address this concern by excluding 1,200 grants worth \$1.5 billion which supported multiple communities or statewide activities. DADHC funding to six organisations accounted for over 70 per cent of this amount, and grants to the electorate of Sydney accounted for 17 per cent (agencies attribute many grants to Sydney because many organisations have their head office there). Notwithstanding these adjustments, DADHC maintains that its grants cannot be accurately mapped to electorates.

We analysed the remaining 26,828 grants worth \$5.2 billion. At this time it is the best multi-agency information available on grant distribution. The sample represents around a fifth of NSW grant funding over the five year period. More detail about our methodology can be found in Appendix 4.

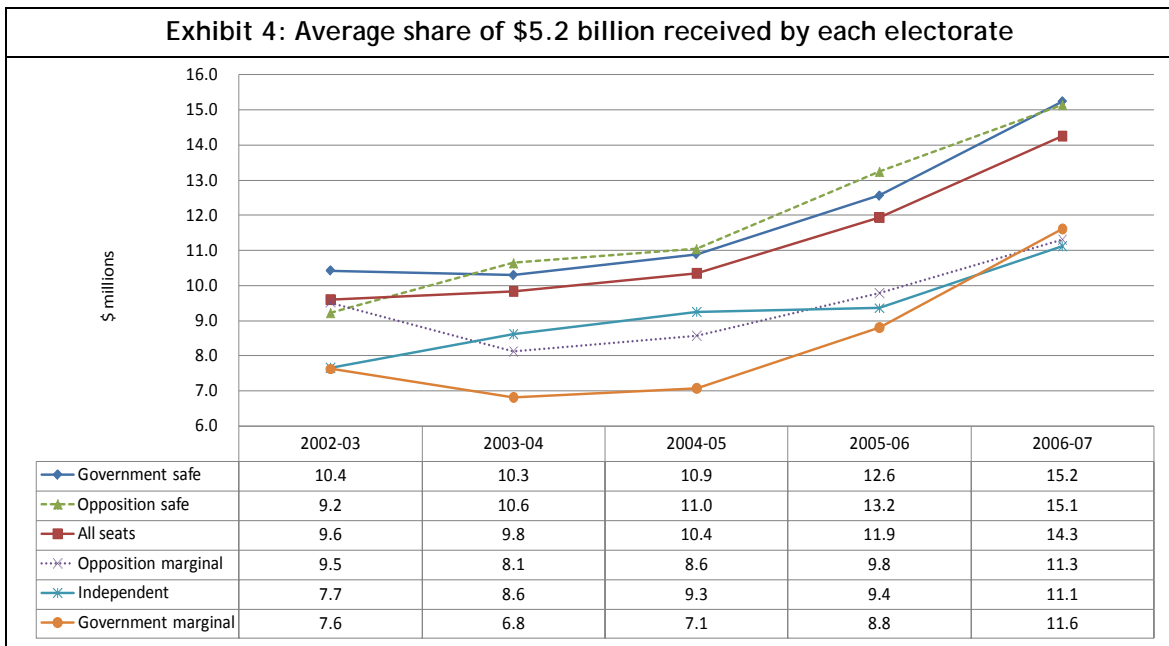
Exhibit 3 shows who made these grants and when. Ninety-two per cent of the \$5.2 billion was paid by DADHC and DoCS.

We analysed the distribution of 26,800 grants worth \$5.2 billion



Source: DADHC, DoCS, ET, Health and DECC.

Exhibit 4 shows how these grants were distributed according to the political characteristics of the electorates.



Source: DECC, ET, DoCS, DADHC and Health.

Note: the independent inner-city seat of Sydney is excluded.

Government and opposition seats get similar amounts

In respect of these grants we found no significant difference between the level of funding to government and opposition electorates. Agencies gave similar levels of funding to government and opposition seats.

But we found electorates safely held by the major parties got more than electorates that were marginal or held by independents. Marginal electorates are those won with less than 56 per cent of the vote at the last election.

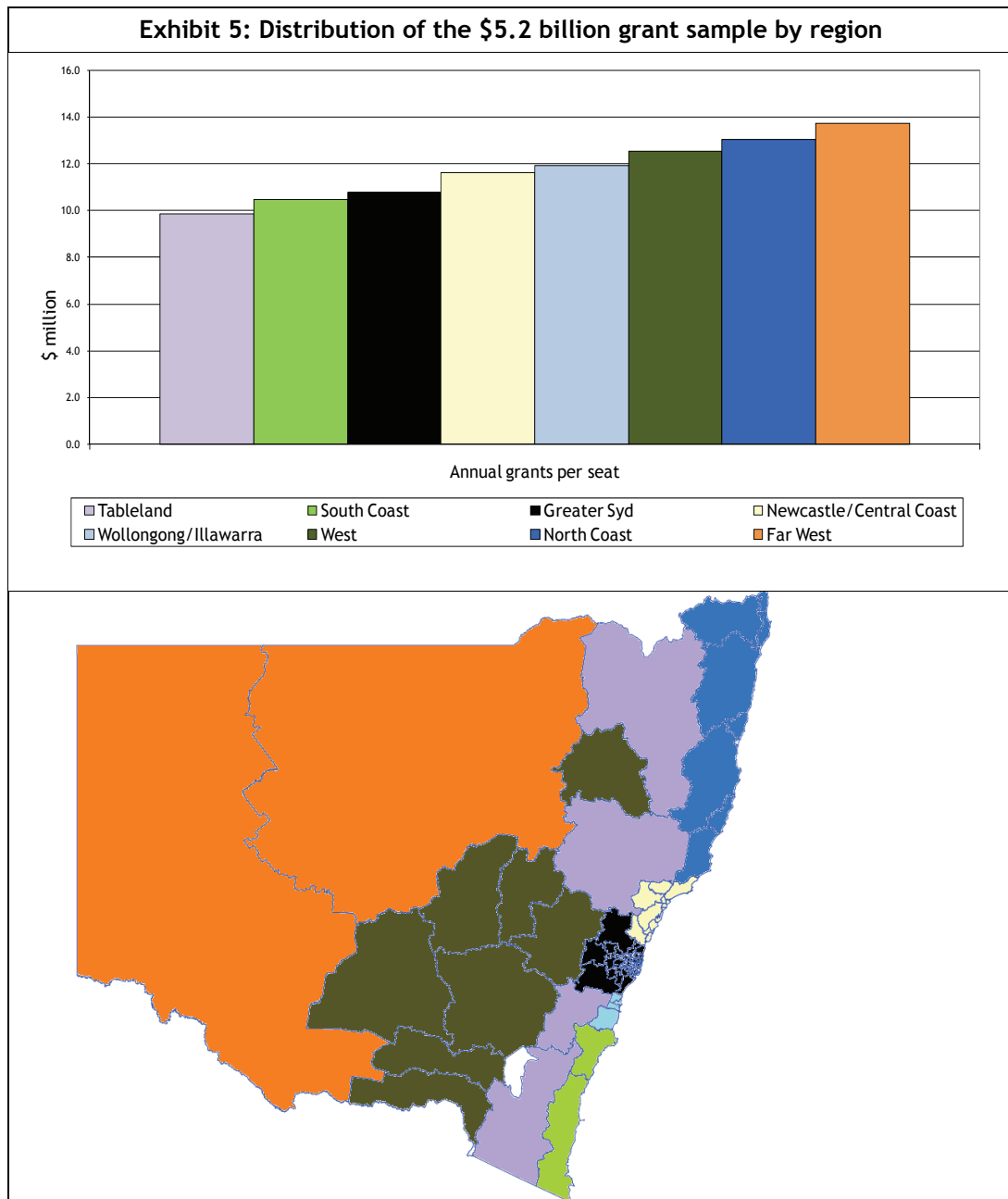
Marginal and independent seats got less

Safe major party electorates got \$1.29 for every dollar received by marginal and independent electorates. Despite the widely held view that grants are used to buy votes, our analysis indicated that marginals did worse than safe seats regardless of who held them. Government marginal seats received the lowest level of funding of all.

We also looked at the regional distribution of grants. Electorates across the state received an average of \$11.3 million a year each from the grants analysed.

Funding varies between regions

Exhibit 5 shows how funding varied between regions with the electorates in the Tablelands getting the least (\$9.9 million) and the Far West getting the most (\$13.8 million).



Source: DECC, ET, DoCS, DADHC, Health

Notes: Appendix 3 lists the electorates in each area.

Tablelands and West each have two zones that are not adjacent.

The independent inner-city seat of Sydney is excluded.

Reasons for funding distribution will vary from program to program depending on the agencies' objectives and can include socio-economic need, the size of the target population, resources and concentrations of environmental, heritage or infrastructure features.

Agencies may give more to electorates that have a larger target population or that are difficult to serve. For example, it costs more to deliver services to the widely dispersed residents of the Far West than Sydneysiders. On the other hand, Sydney has more non-government resources supporting a range of services that people from all over the State can access.

DADHC, DoCS and Health advise that they have resource allocation models to distribute new funding. These models consider a range of factors including population size, client need and the level of existing NGO and agency services. For example, 40 per cent of DADHC-funded services are operated by DADHC itself and their distribution is historical and uneven across the State. DADHC makes new grants to services operated by other organisations to achieve a better distribution of services. Consequently some communities have more government services while others receive more grants funding. Grants should be seen in the context of broader government activity.

While there can be valid reasons for communities receiving different levels of grants funding, such information is not commonly available.

Agencies need to explain their funding decisions

With few exceptions, such as the Environmental Trust, agencies have not adopted the Guide's call to conduct and publish objective, systemic reviews of their grant programs every three to five years. Such reviews can provide assurance that public money is distributed appropriately and effectively to further government objectives.

Generally there is a lack of transparency around the distribution of grants and the performance of grant programs. Most agencies do not explain what grant programs have achieved or how their distribution of taxes makes effective use of public money.

Recommendation

Agencies should publish evaluations of what grants programs achieved and how the distribution of funds has supported government objectives.

3 What do recipients think of the system?

At a glance

The key question we wanted to answer was:

What do grant recipients think of the grant system?

Our assessment: This chapter presents the views of 65 councils and 101 non government organisations (NGOs) who volunteered to complete a survey on NSW grants. The respondents, who account for 40 per cent of councils and under four per cent of NGOs, raise a number of concerns about how grant managers manage and communicate their grant programs.

Some of the agencies, whose grants distribution we examined in the previous chapter, are concerned this chapter will be seen as all about them. It is not. We asked recipients about grants made by all NSW agencies. The findings in this chapter are general in nature except where reference is made to specific agencies.

Our respondents are very positive about what grants achieved, but many have concerns about transparency and red-tape.

Transparency means citizens should be able to "see through" what goes on when public officials act. The NSW *communitybuilders* website is meant to be a single point of information about NSW grants, but agencies are not posting comprehensive information about funding that can be applied for. Only a minority of respondents agree that agencies provide timely information on available grants, advice on how applications are assessed and the reasons for rejection. Less than one in five say decisions to approve or reject grant requests are fair and transparent or agree that grants are directed at the areas of highest need. There is a risk that some communities may miss out on worthwhile projects.

Red-tape refers to inconvenient and unnecessary procedures.

It is proper for agencies to require applicants to document grant requests and for recipients to report on what they did with the money. Most respondents say reporting requirements are reasonable.

But respondents indicate that red-tape can interrupt and frustrate their work. Less than a third agree that the amount of work to apply for grants is reasonable and that reporting requirements are consistent across programs. Fewer than one in four agree that decisions to approve grants are timely and only one in ten say there is coordination between grant-making agencies (including the Commonwealth). Some respondents indicate that agencies create unnecessary paperwork by requiring annual applications for recurrent funding.

Grant makers need to balance efficient process, transparency, accountability and value for money. This balance will depend on the risks of the program, the amounts involved and the recipient.

The 2006 Department of Premier and Cabinet (DPC) Guide provides advice on good practice and provides templates for managing grants. We recommend that DPC review the Guide and that agencies:

- use consistent, standard terminology with grant recipients
- electronically publish a rolling calendar of funding expected to be available over the next 12 months
- increase the use of technology to streamline applications and reporting.

3.1 Who gets grants and how did we get their views?

Agencies have to balance a range of factors when managing grants including efficiency and the objectives of the specific program. One factor agencies should consider is the impact on grant recipients.

Agencies make grants to a wide variety of individuals and organisations. We sought the views of two of the largest groups of grant recipients: local councils and non government organisations (NGOs).

We sent a survey to 151 councils in New South Wales. Sixty-five responded. We also invited NGOs to take part. One hundred and one participated, around three per cent of the NGOs that operate in New South Wales.

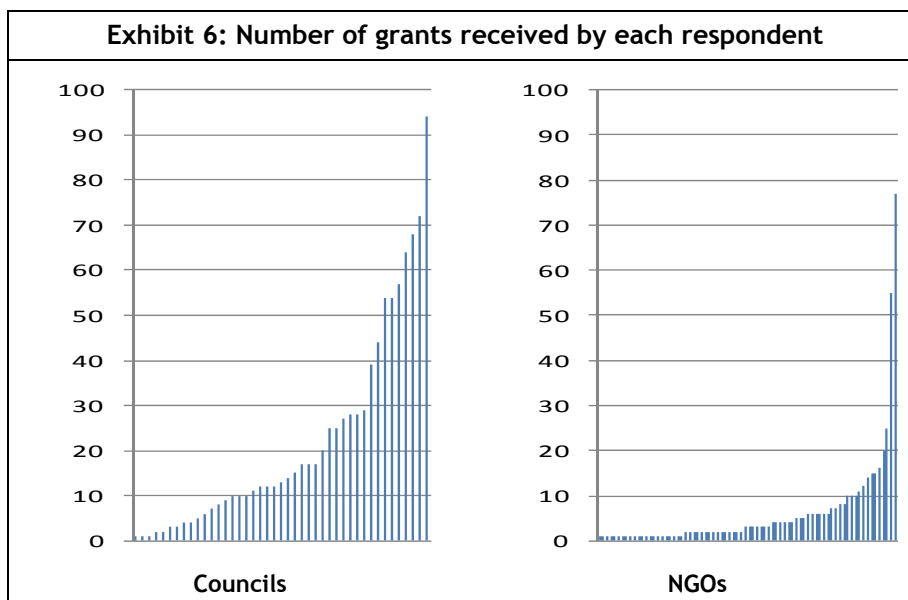
We asked our respondents about all of the grants that they applied for, and received from, NSW agencies in 2006-07. This is a different data set than used in Chapter 2 which looked at grants from five agencies between 2002-03 and 2006-07. Appendix 5 contains more detail about the survey methodology.

Our respondents have extensive experience with grants

In 2006-07 the 166 respondents applied to over 30 NSW government agencies for 1,700 grants worth \$305 million.

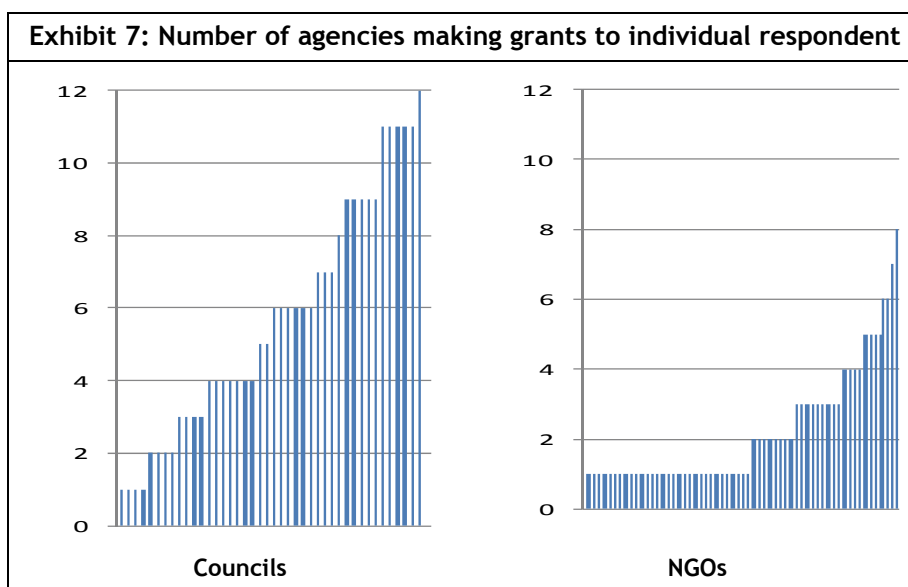
Eighty-four per cent of these applications were successful and agencies made 1,421 grants worth \$225 million to the respondents.

Exhibit 6 shows the number of grants received by each respondent from all NSW agencies. On average each council got 15 grants with a total of \$2.3 million while each NGO got five grants worth \$724,000.



Source: Audit Office of New South Wales survey 2008.

Exhibit 7 shows the number of agencies that made grants to each respondent. Most respondents got grants from more than one agency. On average each council received grants from five agencies and each NGO got grants from more than two agencies. There is nothing wrong with recipients receiving grants from more than one agency for different purposes. But as discussed later in this chapter, a multiplicity of reporting regimes has the potential to bury grant makers and grant recipients in paperwork.

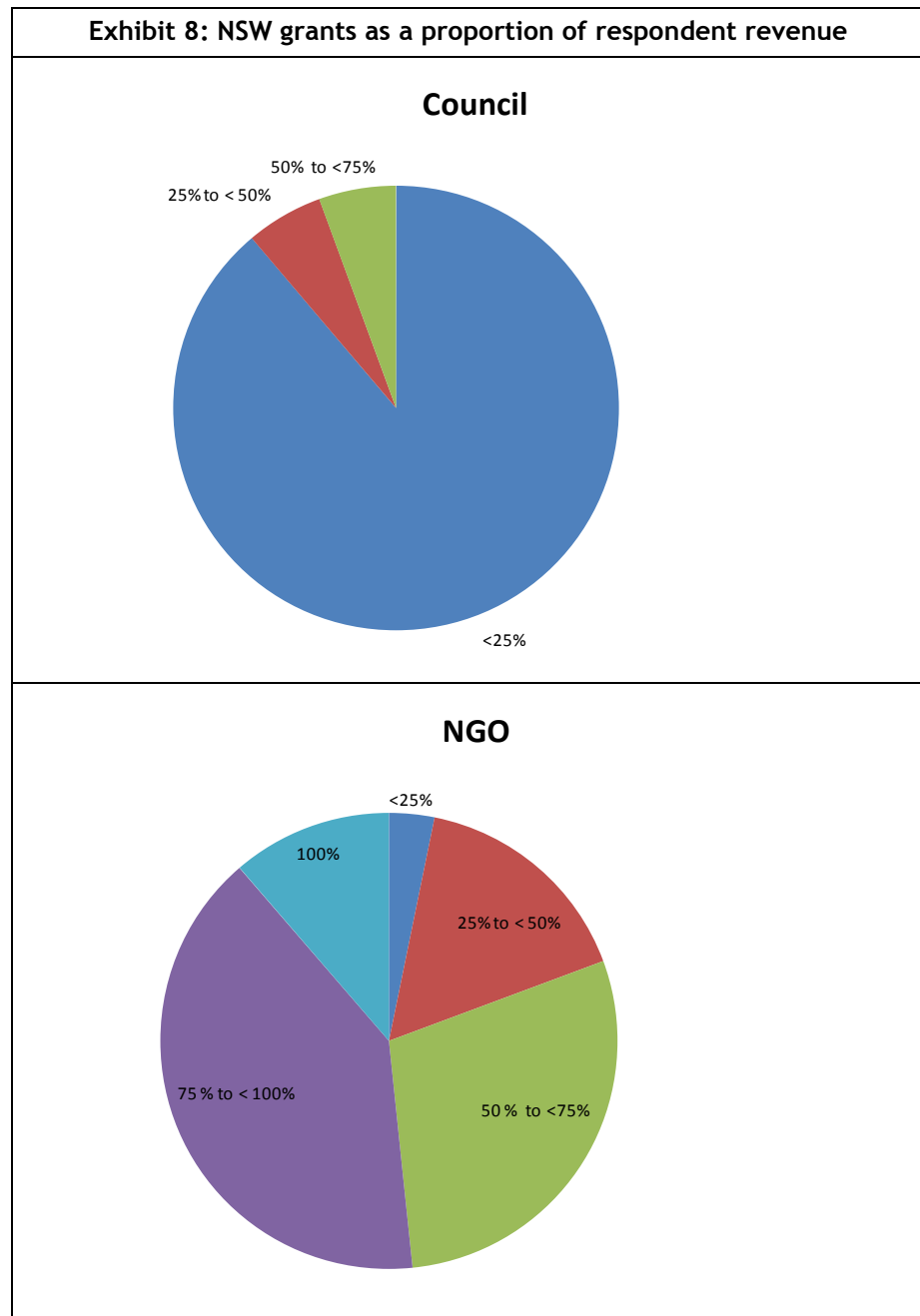


Source: Audit Office of New South Wales survey 2008.

Councils are less dissatisfied than NGOs

Both councils and NGOs are unhappy with aspects of grant administration, but councils are generally less so. Although councils have more applications rejected, they win more funding and are more familiar with grant processes as they dispense grants themselves.

Councils are also less reliant on NSW grants. As Exhibit 8 shows, only five per cent of councils rely on NSW grants for more than half of their income compared to 81 per cent of NGOs.



Source: Audit Office of New South Wales survey 2008.

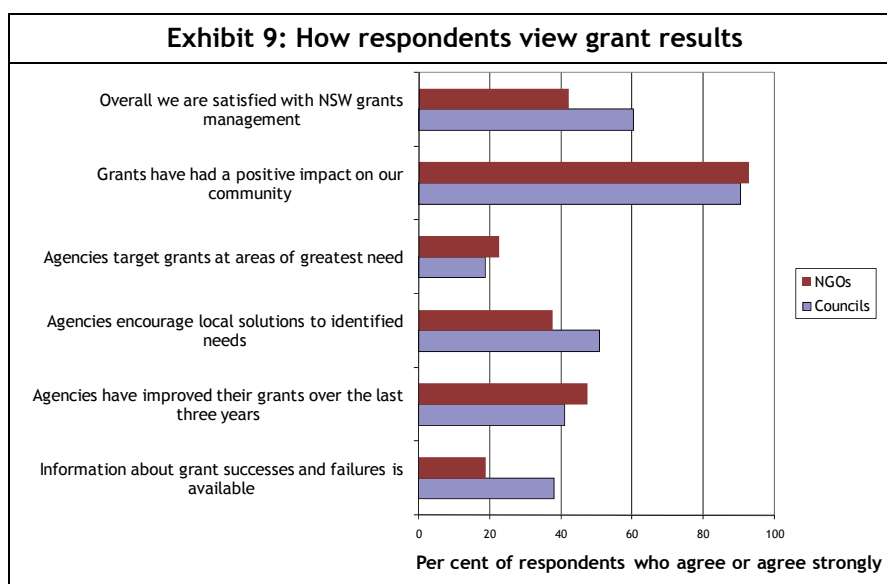
3.2 Respondents said grants help, but are poorly targeted

Our assessment Over 90 per cent of respondents said grants have a positive impact on their community, but only one in five think that agencies target the areas of greatest need.

We found few agencies had published evaluations of grant programs, so there is a lack of assurance that agencies are making the best use of public money.

Exhibit 9 shows the respondents' answers to questions about grant results.

Grants have a positive effect but only one in five think they are well targeted



Source: Audit Office of New South Wales survey 2008.

Fifty per cent of respondents were satisfied overall with NSW grant administration and over 90 per cent said grants had a positive effect on their community. But only one in five agree that agencies target grants at the areas of greatest need.

‘There is no clarity about why certain grants exist.’
Comment by a Sydney council

‘...many grants first made in the 70s or 80s no longer reflect population growth or changing needs.’
Comment by a North Coast NGO

Regional and rural respondents were the most dissatisfied with the targeting of grants. Many commented that grant programs neglected infrastructure renewal which was their communities' greatest need.

Respondents also said that agencies had mixed results in managing the tension between:

- improving efficiency by moving to a small number of funding agreements with major NGOs, and
- working with communities to develop local solutions.

The Guide calls on agencies to conduct robust evaluations to see whether grant programs achieve government objectives.

Agencies should evaluate grant programs

Exhibit 10: The Guide recommends agencies evaluate grant programs

Systematically evaluate each program every three to five years for effectiveness, efficiency, economy and continuing appropriateness
 Develop performance measures for evaluation when the program is being planned
 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 *Good Practice Guide to Grants* 2006.

The Audit Office found that few agencies had adopted the recommendation to publish grant evaluations. In the absence of public evaluation, the public lacks assurance that grant programs are making the best use of taxpayers' money.

Recommendation

The DPC should encourage agencies to regularly evaluate their grant programs and publish the results.

3.3 Respondents have concerns about transparency

Our assessment

Transparency means citizens should be able to “see through” what goes on when public officials act.

Less than half of the respondents agree that they get timely advice on available grants and clear advice on how applications will be assessed. Fewer than one in four say they are told why applications are unsuccessful. Less than one in five say decisions to approve or reject grant requests are fair and transparent.

There is a risk that organisations don't have the information they need to plan, build and work with government to ensure better outcomes and communities may miss out on worthwhile projects. The lack of transparency reported by respondents may undermine public confidence.

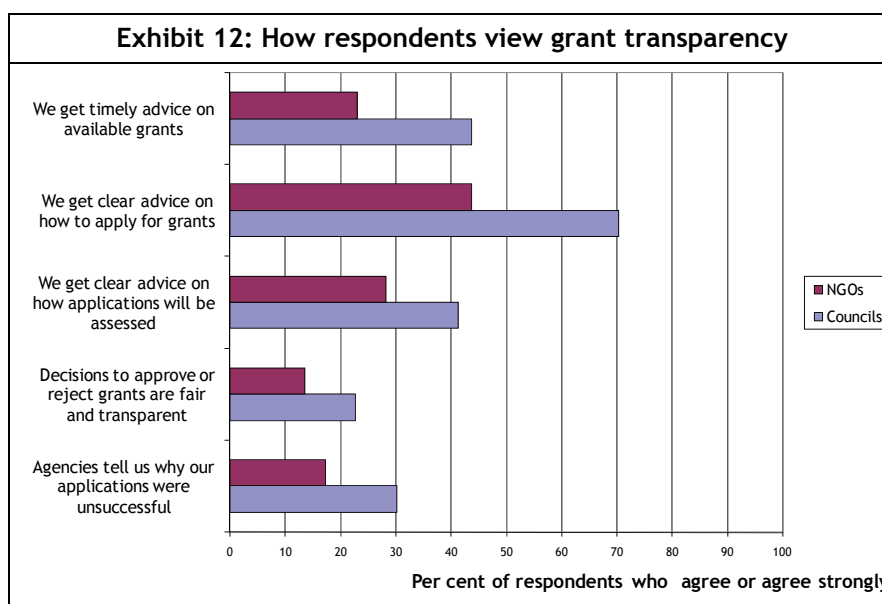
Grant makers should act transparently

Exhibit 11: The Guide recommends agencies manage grants transparently

Align grant programs to agency strategy and government objectives
 Inform all prospective applicants about the availability, timing and the selection criteria and procedures for grants funding
 Publish information about grants on the government's consolidated website for grants at www.communitybuilders.nsw.gov.au
 Ensure that grant decisions are transparent and objective
 Write to unsuccessful applicants advising why they did not get a grant.

Source: Department of Premier and Cabinet *Good Practice Guide to Grants* 2006.

Exhibit 12 shows the respondents' answers about the transparency of the grant process.



Source: Audit Office of New South Wales survey 2008.

The Government has set up a website to provide a single point of information about NSW grants at www.communitybuilders.nsw.gov.au. At present many agencies are not posting information about available grants on the website to help organisations apply for funding and plan to work with government.

Agencies contend that it would be misleading to advertise recurrent funding not meant for new applicants. But some agencies are not publishing the availability of new programs and additional funding. The Guide's principles call for grant programs to be accessible, appropriate and fair.

Only a third of respondents say agencies let them know when grants are available in a timely way so that they have enough time to plan and prepare applications. There is a risk that some communities may miss out on worthwhile projects.

Recipients want timely information on available funding

'There seems to be no central place to look for grants, well our organisation doesn't know where it is.....'

Comment by Western rural NGO

'...agencies have a deadline to meet, but are late getting the application details out leaving us very little time to develop an application.'

Comment by Tablelands rural shire

'Timeframes for submitting grants is sometimes very narrow with as little as two weeks.'

Comment by metropolitan NGO

Recommendation

Agencies should electronically publish a rolling calendar of grants funding expected to be available in the next 12 months.

Recipients lack confidence in the transparency of the process

The next problem our survey identified was that respondents lack confidence in the transparency of the grant-making process.

Fewer than one in four agree that agencies give clear advice on how applications will be assessed. Less than one in five say decisions to approve or reject grant requests are fair and transparent.

'The grant process is non-transparent and shrouded in secrecy.'

Comment by Illawarra regional council

'There needs to be more transparency during the whole grant process- who is on the funding panels? What criteria are used to cull applications? Agencies should use needs based planning and evidence consistently to assess applications. Reasons need to be given why an application was unsuccessful.'

Comment by Central Coast regional NGO

'Big NGOs are consulted by agencies developing grants and get early information that enables them to be the successful applicants. They start their applications long before local communities can mobilise and join partnerships. Transparency remains an issue; those on consulting groups always get grants and government agencies get grants themselves...'

Comment by Tablelands rural NGO

'The process strongly favours large organisations that have someone dedicated to writing applications, but this does not mean they are the best organisation to do the work.'

Comment by metropolitan NGO

Recommendation

Agencies should improve transparency by publishing their procedures for making grant decisions.

Ministers should give explicit directions if they override normal procedures

Sometimes normal grant procedures are not followed. In 2008 the Audit Office of NSW reported that Housing NSW made a grant to Canterbury City Council outside of the agency's documented procedures.

The Auditor-General recommended that Ministers give written direction when grants are made without the normal departmental analysis and advice. Such directions should be publicly disclosed in the agency's Annual Report.

Recommendation

Agencies should publish any Ministerial Direction to make or refuse grants outside of their normal procedures.

Organisations could make better proposals if they were told why applications were rejected

While agencies rejected only 16 per cent of applications from the respondents, 48 per cent of the respondents had at least one grant application rejected.

Only one in four of the respondents say that agencies tell them why their applications were rejected. This is of particular concern to the 25 per cent of NGOs who had a request for funding rejected and were subsequently approached by the successful applicant to do the work (usually for less money).

‘The applicant needs to know why an application has been unsuccessful as a basis for amending the approach taken to preparing future applications.’

Comment by Tablelands rural shire

Recommendation Agencies should tell unsuccessful applicants why their proposal was rejected. How agencies do this may vary depending on the program. For example, the agency could advise the applicant that they missed out on funding because they were ineligible or because they failed to meet particular criteria or because they were not competitive against particular criteria. In large programs with hundreds of unsuccessful applicants, it may be appropriate to issue collective advice on the most common reasons for rejected applications in that round.

Technology can improve transparency and reduce red-tape Some jurisdictions are increasing the use of technology to streamline interaction between funding agencies and organisations seeking funding.

Exhibit 13: USA’s one-stop grants shop - grants.gov
<p>Grants.gov is the USA’s single website for grants. The 26 federal organisations that give grants publish funding opportunities and receive applications on the website. Applicants search for, complete and submit applications for over US\$500 billion worth of grants across 1,000 programs annually. In 2007-08 the website received over 158,000 online grant applications.</p> <p>Grants.gov has helped to streamline and standardise the grant process making it easier for grant makers and recipients by providing:</p> <ul style="list-style-type: none"> ▪ a single, centralised, secure and reliable source of information about funding opportunities ▪ an easy way for grant makers and recipients to interact reducing cost and time.

Source: grants.gov website and Annual Report

Recommendation The DPC should encourage agencies to use web-technology to:

- make it easier to apply for grants
- improve the information available to grant makers and recipients
- streamline interactions between grant makers and recipients.

3.4 Respondents complain about red-tape

Our assessment Most respondents say the reporting requirements are reasonable, but many have concerns about:

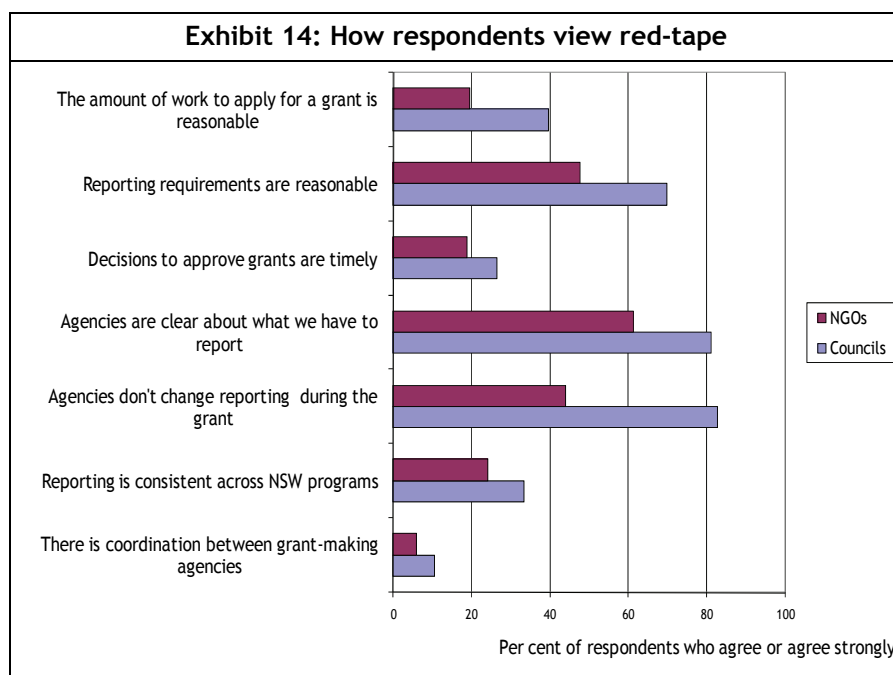
- the amount of work needed to apply for grants
- the lack of consistency in reporting across programs
- the limited coordination between agencies
- delays in decisions to approve grants
- the need to apply annually for recurrent funding.

Agencies can reduce the burden on grant recipients by using consistent, standard terminology, technology and more long-term funding agreements.

Documentation is necessary but should be streamlined

Agencies require applicants to document requests for funding and to report that grants were used properly. The Guide recommends agencies reduce the procedures and documentation required of applicants to the minimum consistent with accountability and value for money. The procedures should reflect the risks and the size and nature of the grant.

Exhibit 14 indicates that the respondents have mixed views on whether agencies have heeded the Guide’s call to streamline grant processes. The majority say that reporting requirements are reasonable but fewer agree that agencies have cut other aspects of red-tape.



Source: Audit Office of New South Wales survey 2008.

Respondents say it is hard to apply

Less than a third of respondents agree that the amount of work needed to apply for a grant is reasonable. Some comment that the cost of applying for grants was unreasonable and often out of proportion to the assistance sought.

‘...serious consideration is desperately needed on how grants are administered. With the current process and the lack of longer term funding we spend a high percentage of the time we are funded writing submissions, reporting and meeting government requirements. This is not a good use of money.’

Comment by metropolitan peak NGO

‘A lot of work goes into detailed grant applications for a limited amount of funding. It would help to have an initial short application (like an expression of interest) which is assessed. If this is approved we could then submit a more detailed application.’

Comment by metropolitan council

Respondents say reporting obligations are clear but onerous Over 60 per cent of respondents say reporting requirements were clear, but many found aspects onerous. Only 44 per cent of NGOs say that agencies do not change reporting obligations during the life of a grant and many comment that agencies have a one size fits all approach.

'The requirement for all funded services to complete the same level of administration and reporting ... regardless of whether an NGO is small, medium or large and regardless of whether they are metropolitan, regional, rural or remote based.'

Comment by North Coast rural NGO

Some NSW agencies are using technology to ease reporting obligations. For example DoCS introduced on-line electronic reporting for children's services in September 2008. This should make it easier for services to provide data and for DoCS to manage grants.

Recommendation Agencies should reduce red-tape by taking a risk based approach to streamline paperwork.

Only one in ten say agencies are coordinated Another concern of respondents is the lack of coordination. Only one in ten say there is coordination between grant makers. This has a number of aspects.

Respondents say the need to report separately on every grant is onerous As seen in Exhibits 6 and 7, our respondents received multiple grants often from more than one agency. The respondents say they have to report and acquit most grants separately. Three councils and one NGO acquitted over 60 grants each. The issue of multiple grants for different purposes to one organisation is not inappropriate, but the time and resources spent reporting on them can be, especially when the recipient has few administrative resources.

Some of these administrative and reporting requirements are imposed by the Commonwealth which funds programs administered by NSW agencies.

'...even reporting requirements within the same government department can be different depending on the funding program.'

Comment by metropolitan NGO

'If there is whole of government coordination among departments providing grants, I have yet to see it.'

Comment by North Coast regional NGO

The lack of coordination also puts grant makers at a disadvantage. It adds to agencies' administrative costs and increases the risk of maladministration and poor targeting of public funding.

Exhibit 15 shows how poor coordination can cause problems even within a single agency. It also tells of how the agency rectified the situation by consolidating the various funding it provides to an NGO into one funding agreement.

Improved coordination can help both grant recipients and agencies

Exhibit 15: Case study - Improved Coordination

What went wrong

In 2007 the NSW Department of Health realised there were problems with some of its grants to an Aboriginal NGO. An internal audit found no corruption, but identified poor grant administration within both the NGO and the Department.

Six Departmental units had made recurrent grants to the NGO for a range of health programs. Other NSW and Commonwealth agencies also funded the NGO. The NGO's operations had grown exponentially as new programs were funded but its administrative resources had not kept pace.

The NGO was unable to cope with its compliance obligations. It had no accountant or operations manager, only a bookkeeper to carry out financial and administrative duties. The NGO had to prepare six separate activity reports, financial reports and audited statements just for the Department's grants. Lack of administrative resources affected compliance, leading to poor record keeping and a failure to report on and acquit grants within the required timeframe. Some grants were mismanaged by the NGO and inappropriate spending occurred due to lack of oversight.

For its part, the Departmental units did not adequately share information, streamline reporting requirements, monitor performance or provide timely feedback to the NGO.

How it was fixed

Because no other organisation was able to deliver the services provided by the NGO, the Department worked to improve the funding arrangement.

It stopped funding the mismanaged programs and adopted an integrated funding approach developed in conjunction with the Commonwealth Office for Aboriginal and Torres Strait Islander Health.

This approach has been implemented for Departmental grants to all Aboriginal health NGOs. It coordinated grant planning and reporting by establishing a case manager for the NGO to deal with. This benefits the agency and NGOs:

- the Department can monitor its grants more effectively and the case manager has the expertise and resources to assist Departmental units and the NGO
- NGOs only have to make one application (triennial), provide one activity report (6 monthly) and prepare one financial performance and audit report (annual) even though several programs contribute funding.

The way ahead

The audit saw no sign that government is adopting a similar approach to improve coordination where recipients are receiving funding from a number of agencies to address complex needs.

It should.

Source: Audit Office of New South Wales research 2008.

Recommendation

Agencies should reduce red-tape by integrating the funding and management of multiple grants.

Agencies do not have a consistent framework for grants reporting

A second aspect of coordination that respondents complain about is the lack of consistency. Less than one in three respondents say reporting and acquittal is consistent across programs. Acquittal is the formal process by which recipients account for government money received.

'Grant acquittal would be greatly improved if all departments had the same acquittal process. At present, acquittals vary between departments requiring different categorisation of spending which becomes labour intensive.'

Comment by Far Western NGO

'Dealing with a number of departments requires extra project management, reporting and workloads. Recording different sets of data for different agencies gets complex....'

Comment by North Coast regional shire

'A more whole-of-government approach should focus on minimising money spent on the application, approval and acquittal processes and increasing spending on projects. And provide a more transparent and equitable allocation of funding.'

Comment by North Coast regional council

What is working in other States

Amalgamations and mergers in recent years have increased administrative consistency by reducing the number of grant-making agencies. This process has been taken further in Victoria where one agency makes all community grants.

The Guide also tells agencies to be aware of the accountability burden that multiple grants impose on recipients. It recommends standard tools and reporting templates.

Queensland has gone further than New South Wales and introduced a consistent reporting framework for recipients.

Exhibit 16: Queensland's consistent grants reporting
In 2005, Queensland standardised the reporting framework for human services grants. This involved a standard chart of accounts with consistent and streamlined definitions for recording expenses and revenues. Queensland Treasury funded extensive training to the NGOs to support the implementation of the system. The reform significantly reduced recipients' compliance costs and improved agencies' ability to aggregate data and compare performance.

Source: Queensland University of Technology *Not for Profit Chart of Accounts Project 2006*.

DoCS has built on this Queensland work and endorsed a standard chart of accounts for NSW NGOs. DoCS has also provided training to some NGOs in its use.

However, grant recipients advised us in interviews and submissions, that standardised reporting has only been partially implemented.

In 2008 the Queensland University of Technology found on average recipients spent 15 paid hours applying for each grant, six hours acquitting and nearly two hours per form on other reports. It is likely to take NSW recipients longer because we have not achieved standardised reporting to the same degree.

Recommendation DPC should review the Guide and amend it to encourage all agencies to use a consistent, standard terminology when dealing with grant recipients.

Respondents complain of delays in approving grants Another aspect of red-tape is the time taken by agencies to process grants. Less than one in four of the respondents say that decisions to approve grants are timely. The respondents expressed two major concerns around timeliness.

Firstly, delays threaten the viability of organisations providing ongoing support to people in need. It is difficult for these NGOs to suspend their services while they wait for agencies to approve funding.

‘Some agencies give us two weeks to apply but take nearly a year to inform us whether we get the grant.’

Comment by metropolitan NGO

Secondly, delays can interrupt and frustrate projects.

‘Assessment turnaround is far too long - have waited up to nine months before being notified. On average it take six months and this results in projects being delayed, interrupted, suspended or even scrapped.’

Comment by Western rural council

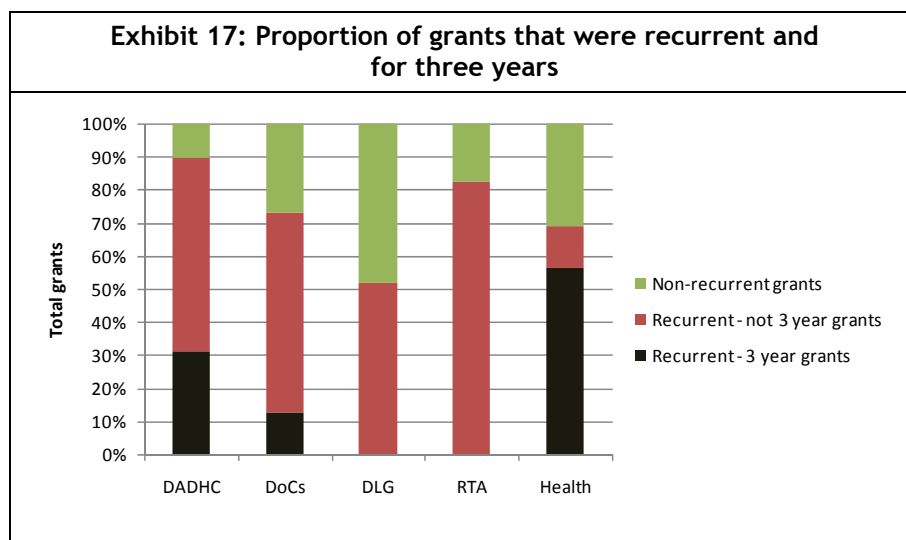
‘The period between our application ... and the grant decision is often very long and affects efficient implementation of projects. Some departments don’t tell us we have the grant until April or May. This leaves little time to deliver the project by 30 June.’

Comment by metropolitan council

Agencies require annual applications for recurrent funding Many of these delays could be avoided if agencies followed the Guide and used three year rather than annual grants for recurrent funding.

We asked our respondents how many grants each agency provides, whether the grants are recurrent (ongoing) or one-off and the length of the funding agreement. The respondents consider over half of their grants from six agencies to be recurrent. The agencies were DADHC, DoCS, NSW Health, Department of Local Government (DLG), and the Road and Traffic Authority (RTA).

Exhibit 17 indicates that, from the respondents’ perspective, only NSW Health is using three year funding agreements for most of its recurrent grants.



Source: Audit Office of New South Wales survey 2008.

Some agencies dispute the respondent’s views. For example, DADHC advises that it uses three year funding agreements for all of the grants which it considers to be recurrent. Agencies also advise that organisations need to be able to demonstrate long-term viability before being given three year funding agreements.

Recommendation

Agencies should reduce red-tape by introducing:

- three or four year agreements for recurrent services and ongoing projects
- targets to better manage the time taken to process grants.

3.5 Agencies need to manage the risks

As discussed in Chapter 1, appropriate, documented risk management can help grant managers strike a balance between streamlined processes and appropriate controls.

Grant makers need to balance efficient processes, transparency, accountability and value for money. This balance will depend on risks of the particular program, the amount of money involved and the type of recipient.

Appendices

Appendix 1 About the audit

Audit Objective This audit examined whether grants were being distributed appropriately and the attitudes of recipients towards grant management by NSW agencies.

In reaching our opinion we sought to answer the following questions:

1. how were grants defined?
2. where had grants gone?
3. what did recipients think of the system?

Audit Criteria In answering these questions 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.

Firstly, we assessed the extent to which:

- grants were appropriate for the purchase of goods and services
- NSW agencies could learn from developments in other jurisdictions.

Secondly, we assessed the extent to which the distribution of grants varied according to the political and regional characteristics of the electorate.

Thirdly, we assessed the extent to which recipients believed that grants:

- produced good outcomes and were targeted at need
- were transparent
- avoided unnecessary red-tape.

Audit scope The audit focused on grants by NSW agencies to NGOs and councils. By councils we mean all local governments including councils and shires.

This audit did not examine:

- subsidies and grants made to other NSW government agencies
- individual grant decisions.

Audit approach We acquired subject matter expertise by:

- interviewing staff involved in developing grant policy and procedures
- interviewing staff responsible for administering grant programs
- interviewing NGO and council staff who applied for and used grants
- reviewing Government and agency corporate planning documents
- analysing the distribution of a large sample of grants made by five agencies between 2002-03 and 2006-07
- surveying councils and NGOs.

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
- United States of America.

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 <i>Public Finance and Audit Act 1983</i> .
Acknowledgement	We gratefully acknowledge the co-operation and assistance provided by the Department of Premier and Cabinet, The Treasury, NSW Health, the Department of Ageing Disability and Home Care, the Department of Environment and Climate Change, the Department of Community Services and the Environmental Trust. We would also like to thank the assistance provided by Ourcommunity, NSW Council of Social Services, Federation of Non Government Agencies, Local Government and Shire Associations, Flood Management Authority and the Victorian and Australian National Audit Offices.
Audit team	Michael Johnston led this performance audit and was assisted by Angelina Pillay. Aaron Green also provided assistance with this audit. Sean Crumlin provided direction and quality assurance.
Audit cost	Including staff costs, printing costs and overheads, the estimated cost of the audit is \$323,000.

Appendix 2

Glossary

Accountability	The responsibility to provide information so citizens and parliament can make informed judgements about performance and compliance.
Acquittal	The process by which the recipient of funds demonstrates that the money was spent in accordance with the agreed terms and conditions.
Assessment	The process of deciding who gets funding.
Communitybuilders.nsw	A website established in 2005 to provide a single point of electronic access about NSW Government grants.
Council	The common name for the 152 NSW local government associations that include city councils, councils and shires.
Contract	A legally enforceable agreement that has clear economic consequences that the parties have little discretion to avoid. Contracts are a reciprocal transfer.
Department of Premier and Cabinet (DPC)	The DPC provides strategic advice and services to the Government, manages statewide projects, drafts legislation, manages public sector staff and resources and sets whole-of-government policies. In respect of grants the DPC issued the <i>Good Practice Guide to Grants</i> in 2006.
Economy	The acquisition of appropriate resources at the lowest price at the right time - spending less.
Effectiveness	The achievement of results - spending wisely.
Efficiency	The productive use of resources to produce desired outputs - spending well.
Evaluation	The process of systemically reviewing how well the funding program is doing; whether it is achieving the desired objectives and whether it should be modified or discontinued.
Funding agreement	A documented agreement between the funder and the recipient that identifies the purpose, conditions and performance indicators for the funding. It should include appropriate controls and accountability mechanisms for the provision, receipt management and acquittal of the monies to ensure they are spent appropriately and to determine that the funded activity is going to plan.
Grants	A grant is a non-reciprocal payment where there is no exchange of approximately equal value. Government grants are given to organisations or individuals for a specified purpose directed at achieving goals and objectives consistent with government policy. The funding agency may make entitlement to, or payment of, the grant conditional on past or future performance.
Independent Seat	An electorate held by a representative who is not a member of one of the major parties (the Australian Labour, Liberal and National parties).
Marginal seat	An electorate whose sitting member received less than 56 per cent of the two-party preferred votes at the last election.
Recurrent funding	Funding that is repeated from year-to-year, as opposed to one-off funding for a particular activity or cause.
Red-tape	The burden imposed by agencies' administrative paperwork and formalities on others. The burdens include delay, cost and time taken to comply with the agencies' requirements.
Safe seat	An electorate whose sitting member received 56 per cent or more of the two-party preferred votes at the last election.
Transparency	Processes and procedures that allow citizens to "see though" agency actions and assess what is going on.

Appendix 3	Regional breakdown
Far West - 2	Barwon, Murray-Darling.
Greater Sydney - 52	Auburn, Balmain, Bankstown, Baulkham Hills, Blacktown, Blue Mountains, Cabramatta, Camden. Campbelltown, Canterbury, Castle Hill, Coogee, Cronulla, Davidson, Drummoyne, East Hills, Epping, Fairfield, Granville, Hawkesbury, Heathcote, Heffron, Hornsby, Kogarah, Ku-ring-gai, Lakemba, Lane Cove, Liverpool, Londonderry, Macquarie Fields, Manly, Maroubra, Marrickville, Menai, Miranda, Mount Druitt, Mulgoa, North Shore, Oatley, Parramatta. Penrith, Pittwater, Riverstone. Rockdale, Ryde, Smithfield, Strathfield, Toongabbie, Vacluse, Wakehurst, Willoughby, Wollondilly. <i>Note: the inner-city seat of Sydney is excluded.</i>
Newcastle - Central Coast- 12	Cessnock, Charlestown, Gosford, Lake Macquarie, Maitland, Newcastle, Port Stephens, Swansea, Terrigal, The Entrance, Wallsend, Wyong.
North Coast - 8	Ballina, Clarence, Coffs Harbour, Lismore, Myall Lakes, Oxley, Port Macquarie, Tweed.
South Coast - 2	Bega, South Coast.
Tablelands - 4	Goulburn, Monaro, Northern Tablelands, Upper Hunter.
West - 8	Albury, Bathurst, Burrinjuck, Dubbo, Murrumbidgee, Orange, Tamworth, Wagga Wagga.
Wollongong - Illawarra - 4	Keira, Kiama, Shellharbour, Wollongong.

Appendix 4 Data analysis

Aim We analysed grants data to look at how grants were distributed across electorates and regions.

Scope We collected data directly from grant-making agencies including the Department of Environment and Climate Change (DECC), Environmental Trust (ET), NSW Health, Department of Education and Training (DET), Ministry of Transport (MoT), Department of Community Services (DOCS), Motor Accidents Authority (MAA) and Department of Ageing, Disability and Home Care (DADHC).

Not all the agencies had data on the electoral distribution of grants for the five years between 2002-03 and 2006-07, so we examined 28,031 grants worth \$6.7 billion made by five agencies, DADHC, DoCS, Health, DECC and ET. Health only had electoral data for grants issued by the Minister and DECC only had electoral information for the coastal, estuary and floodplain programs.

We refined this raw data in two stages.

Firstly, we excluded grants which were:

- not attributed to a particular seat or were recorded as statewide (\$97 million)
- attributed to the inner-city electorate of Sydney (formerly Bligh). Sydney 'gets' a disproportionate number of grants because many NGOs have head offices there. A grant assigned to Sydney seat is likely to benefit other communities as well. The seat which covers the CBD received four times the average amount going to other electorates (\$267 million).

Secondly, agencies kept data relating to grants and electorates in different forms and this affected how we used the data.

DECC and ET had individual records for each grant. It was clear which grants were statewide or directed at general issues. The remaining environmental grants were targeted at specific places and could be matched to electorates.

DoCS had individual records for each grant and these were attributed to local electorates not the head office of the recipient. We excluded 56 grants (\$23 million) made by DoCS Head Office to fund statewide policy development, secretariats and telephone services.

Health did not have individual records for each grant. Health had separate records for each program and health unit that provided funding and each record was attributed to an electorate. Large recipients tended to have a number of records with different electorates. We excluded 82 grants (\$70 million) made to peak bodies by the head office of Health. These grants tended to be statewide health promotional campaigns. We also excluded grants where there was a discrepancy between the funder and the electorate (for example a rural AHS funding an NGO in Ryde).

DADHC did not have individual records for each grant. DADHC had one record for each recipient and the total value of grants was recorded against one electorate. A separate record listed the programs that funded each recipient. We examined the recipients who received more than \$10 million a year and excluded 30 grants (\$1,103 million) to six organisations whose main operations provided services to a number of electorates. We also excluded 80 grants (\$10 million) to organisations that were funded only for advocacy that was not place specific.

After we made these exclusions we had a sample of 26,828 grants worth \$5.2 billion made between 2002-03 and 2006-07. The grant funding examined is shown in the following table.

	2002-03	2003-04	2004-05	2005-06	2006-07
DADHC	518,429,098	524,038,615	568,563,506	643,673,698	788,205,366
DoCs	304,379,689	315,490,958	318,862,921	372,348,691	409,146,832
Health	55,450,340	55,639,862	61,688,951	69,409,078	74,940,465
DECC	10,837,087	11,241,236	3,176,629	18,914,931	15,620,943
ET	3,241,872	7,635,984	10,273,369	6,623,057	37,658,431

The analysis

We engaged Orima, a consultancy firm, to analyse the distribution of these grants by:

- agency
- year
- electorate and whether it was held by government, opposition or independent members and whether it was a safe or marginal seat
- geographical region.

Appendix 5 Survey

- Aim** We designed the survey to capture:
- the views of recipients on grant administration in New South Wales
 - information about the grant applications made and grants received.

- Design** Our development of the survey was informed by:
- the DPC’s 2006 Guide to good grant practice in New South Wales
 - interviews with agency staff involved in grant policy and administration
 - interviews with NGO and council staff who applied for and used grants
 - exposing a draft survey to central agencies, peak NGOs and councils for comment
 - piloting a draft survey with two NGOs and two councils.

We engaged Orima Research to provide quality assurance on the survey tool, conduct the survey and analyse the results and provide a report.

The majority of the questions asked for the respondent’s level of agreement with statements using a six-point scale.

1	2	3	4	5	6
Strongly agree	Agree	Neither agree nor disagree	Disagree	Disagree strongly	Don’t know or not sure

- The questions** The survey asked organisations who had applied for grants in 2006-07 to rate their level of agreement with the following statements about applying for grants:
- NSW Government agencies let us know when grants are available in a timely way so that we have enough time to plan and prepare applications
 - there is whole-of-government coordination amongst NSW Government agencies providing grants
 - we get clear advice on how to apply for grants
 - we get clear advice on how applications will be assessed
 - the amount of work needed to apply for a grant is reasonable
 - the grant framework encourages applicants to develop local solutions to meet identified needs
 - grants are targeted at the areas of greatest need
 - the decision to approve or reject grant applications is timely
 - the decision to approve or reject grant applications is fair and transparent
 - agencies tell us why our applications are unsuccessful
 - once a grant is approved, the agency quickly formalises the arrangement with a funding agreement
 - funding agreements clearly set out the parties’ roles and responsibilities
 - funding agreements establish standards of quality and performance that can be assessed objectively.

The survey provided space for respondents to comment on grants applications and to explain their responses.

The survey also asked recipients to provide details about the number and total value of unsuccessful grant applications by agency and whether the recipient was later approached by a successful applicant to provide the services.

The survey asked recipients who had received grants in 2006-07 to rate their level of agreement with the following statements about using grants:

- the outcomes we're expected to achieve with grants are realistic and achievable
- grant payments are made at timely intervals that help us manage cash flows for the project
- Government agencies are clear about what we have to report about our grant
- during the life of a grant, government agencies do not change the reporting obligations set out in the funding agreement
- the reporting and compliance requirements are reasonable and appropriate
- there are consistent reporting and acquittal requirements across NSW Government grants programs
- we use grant money for the purpose specified in the funding agreement
- grant funded projects have achieved the agreed outcomes
- agencies have reviewed and improved their administration of grants programs over the last three years
- information that describes successful and unsuccessful grant projects in NSW is readily available
- overall, NSW grant programs have a positive impact on our community.

The survey provided space for respondents to comment on using grants and to explain their responses.

The survey then asked recipients to provide details about the number and total value of grants received by agency and also the number of funding agreements, the duration of the grants and whether they were recurrent.

The survey also asked respondents to:

- rate their overall satisfaction with NSW grant administration
- nominate (with reasons) the agencies with the best and poorest grant administration
- suggest improvements to NSW grant administration.

Finally the survey asked respondents to provide information about their organisations:

- their name
- whether they were a local government authority (council) or NGO
- if an NGO, what were their main client groups
- if an NGO, what was their size (less than 15 FTE staff; 15-50; more than 50)
- what locations do they operate in statewide or postcodes
- what electorates do they operate in.

Distribution and response

Orima sent the survey to the general managers of all of the 152 local government authorities (councils) in New South Wales. Sixty-five councils responded.

The audit also engaged the help of the NSW Council of Social Services, the Federation of Non-Government Associations and our community to publicise the survey amongst the NGO sector. NGOs could access the survey through the Audit Office and Orima web-sites. One hundred and one NGOs responded.

The respondents included:

- 13 councils and 57 NGOs from Sydney
- 17 councils and 32 NGOs from regional New South Wales
- 35 councils and 11 NGOs from rural New South Wales
- 1 NGO did not provide their location
- Of the NGOs 70 per cent were small (less than 15 FTE staff), 20 per cent were medium and 10 per cent were large (more than 50 FTE staff).

The analysis

Orima analysed the frequency results by:

- council - NGO
- NGO size
- Sydney - Regional - Rural
- satisfied - neither satisfied nor dissatisfied - dissatisfied.

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?

Every few years we conduct a follow-up audit. These follow-up audits look at the extent to which action has been taken to address issues or recommendations agreed to in an earlier performance audit.

The Public Accounts Committee (PAC) may also conduct reviews or hold inquiries into matters raised in performance audit reports. Agencies are also requested to report actions taken against each recommendation in their annual report.

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
186	Grants	<i>Grants Administration</i>	May 2009
185	Forests NSW	<i>Sustaining Native Forest Operations</i>	29 April 2009
184	NSW Police Force	<i>Managing Injured Police</i>	10 December 2008
183	Department of Education and Training	<i>Improving Literacy and Numeracy in NSW Public Schools</i>	22 October 2008
182	Department of Health	<i>Delivering Health Care out of Hospitals</i>	24 September 2008
181	Department of Environment and Climate Change	<i>Recycling and Reuse of Waste in the NSW Public Sector</i>	11 June 2008
180	Follow-up of 2003 Performance Audit	<i>Protecting Our Rivers</i>	21 May 2008
179	NSW Office of Liquor, Gaming and Racing; NSW Police Force	<i>Working with Hotels and Clubs to reduce alcohol-related crime</i>	23 April 2008
178	Greyhound and Harness Racing Regulatory Authority	<i>Managing the Amalgamation of the Greyhound and Harness Racing Regulatory Authority</i>	3 April 2008
177	Office of the Director of Public Prosecutions	<i>Efficiency of the Office of the Director of Public Prosecutions</i>	26 March 2008
176*	Better Practice Guide	<i>Implementing Successful Amalgamations</i>	5 March 2008
175	Department of Commerce Department of Primary Industries	<i>Managing Departmental Amalgamations</i>	5 March 2008
174	Department of Education and Training	<i>Ageing workforce - Teachers</i>	13 February 2008
173	NSW Police Force	<i>Police Rostering</i>	5 December 2007
172	Department of Primary Industries	<i>Improving Efficiency of Irrigation Water Use on Farms</i>	21 November 2007
171	Department of Premier and Cabinet Department of Commerce	<i>Government Advertising</i>	29 August 2007
170	RailCorp	<i>Signal Failures on the Metropolitan Rail Network</i>	15 August 2007
169	NSW Police Force	<i>Dealing with Household Burglaries</i>	27 June 2007
168	Ministry of Transport	<i>Connecting with Public Transport</i>	6 June 2007
167	Follow-up of 2001 Performance Audit: Ambulance Service of New South Wales	<i>Readiness to Respond</i>	6 June 2007
166	Follow-up of Performance Audit Department of Education and Training	<i>Using Computers in Schools for Teaching and Learning</i>	9 May 2007
165	Homelessness	<i>Responding to Homelessness</i>	2 May 2007
164	Department of Juvenile Justice NSW Police Force	<i>Addressing the Needs of Young Offenders</i>	28 March 2007

No	Agency or Issues Examined	Title of Performance Audit Report or Publication	Date Tabled in Parliament or Published
163	Legal Aid Commission of NSW	<i>Distributing Legal Aid in New South Wales</i>	13 December 2006
162	NSW Health	<i>Attracting, Retaining and Managing Nurses in Hospitals</i>	12 December 2006
161	Follow-up of 2003 Performance Audit	<i>The Police Assistance Line</i>	6 December 2006
160	NSW Health	<i>Helping Older People Access a Residential Aged Care Facility</i>	5 December 2006
159	NSW Health	<i>Major Infectious Disease Outbreaks: Readiness to Respond</i>	22 November 2006
158	Department of Education and Training	<i>Educating Primary School Students with Disabilities</i>	6 September 2006
157	Roads and Traffic Authority	<i>Condition of State Roads</i>	16 August 2006
156*	Fraud Control	<i>Fraud Control Improvement Kit: Meeting Your Fraud Control Obligations</i>	20 July 2006
155	Follow-up of 2002 Performance Audit	<i>Regulating the Clearing of Native Vegetation</i>	19 July 2006
154	Follow-up of 2002 Performance Audit	<i>Managing Sick Leave in NSW Police and the Department of Corrective Services</i>	June 2006
153	Performance Information	<i>Agency Use of Performance Information to Manage Services</i>	21 June 2006
152	Roads and Traffic Authority	<i>The Cross City Tunnel Project</i>	31 May 2006
151	Department of Corrective Services	<i>Prisoner Rehabilitation</i>	24 May 2006
150	Follow-up of 2000 Performance Audit	<i>Fare Evasion on Public Transport</i>	26 April 2006
149	Agency Collaboration	<i>Agencies Working Together to Improve Services</i>	22 March 2006
148	Department of Education and Training	<i>The New Schools Privately Financed Project</i>	8 March 2006
147	Premier's Department	<i>Relocating Agencies to Regional Areas</i>	14 December 2005
146	Bus Transitways	<i>Liverpool to Parramatta Bus Transitway</i>	5 December 2005
145	Follow-up of 2002 Performance Audit	<i>Purchasing Hospital Supplies</i>	23 November 2005

* 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.