



2011

PARLIAMENT OF TASMANIA

**AUDITOR-GENERAL
SPECIAL REPORT No. 98**

**Premier's Sundry Grants Program
and
Urban Renewal and Heritage Fund**

June 2011

Presented to both Houses of Parliament in accordance with the provisions of Audit Act 2008

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This report is printed on recycled paper.

ISBN 978-0-9808688-4-5



21 June 2011

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Madam President

Dear Mr Speaker

SPECIAL REPORT NO. 98

**Premier's Sundry Grants Program and
Urban Renewal and Heritage Fund**

This report has been prepared consequent to examinations conducted under section 23 of the *Audit Act 2008*. The objective of the audit was to ascertain whether the funds complied with guidelines, were apolitical and were adequately monitored and reported.

Yours sincerely

H M Blake

AUDITOR-GENERAL

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Foreword

An important finding from our audits of the Premier's Sundry Grants Program and of the Urban Renewal and Heritage Fund (the programs) was that, in neither case was there persuasive evidence of the funds being used for political advantage. However, guidelines processes, budget setting and other arrangements could, in my view, be improved.

As Auditor-General, I often find myself caught between recommending the application of additional or revised processes while at the same time not wanting to add to what some commentators often describe as overly bureaucratic public sector requirements. This is not my intention although I acknowledge that my recommendations regarding both programs will, if implemented, introduce additional processes.

I have heard it said that process should not get in the way of a good idea or of effective outcomes. While I concur with this sentiment, appropriate process should deliver better outcomes and protect decision makers along the way.

As noted in my response to the Premier's submission regarding the sundry grants program, my recommendations are aimed at formalising existing, but inconsistently applied, informal processes, eliminating any perceptions of political motivations, preventing inequitable outcomes and ensuring funds are spent for the purposes intended. It is my expectation such changes are likely to lead to better outcomes.

HM Blake

Auditor-General

21 June 2011

List of acronyms and abbreviations

DPAC	Department of Premier and Cabinet
Premier's Grants	Premier's Sundry Grants Program
RAF	Request for additional funding
TI	Treasurer's Instructions
Treasury	Department of Treasury and Finance
URHF	Urban Renewal and Heritage Fund

Executive summary

Executive summary

Background

Prior to and immediately after the March 2010 State election there was considerable media attention around the provision of grants by the incumbent Government. A number of different interest groups expressed concerns that:

- funds were being used to finance projects in marginal electorates
- projects were outside the scope of the relevant fund
- project evaluation criteria had not been satisfied.

During 2010, the Auditor-General received correspondence from the Leader of the Opposition expressing concerns regarding Premier's Sundry Grants (Premier's Grants). In addition, The Greens also raised concerns with the Urban Renewal and Heritage Fund (URHF). The Auditor-General decided to examine both funds as part of a single audit. The objective of the audit was to ascertain whether the funds complied with guidelines, were apolitical and were adequately monitored and reported. As appropriate, we used the principles contained in Treasurer's Instruction 709 (TI 709) *Grant Management Framework*, which provide a set of instructions for departments to follow when offering grants to external organisations.

Premier's Sundry Grants Program

Premier's Grants is the only grant program within Department of Premier and Cabinet (DPAC) providing grants, allocated at the Premier's discretion, to community organisations on request. The aim of Premier's Grants is to support community and cultural activities with national, statewide or local significance. During 2009–10, \$840 203 was allocated to community organisations from Premier's Grants.

Urban Renewal and Heritage Fund

The URHF was established from \$25m in proceeds received from the sale of the Hobart International Airport. The aim of the fund was to assist with the conservation and restoration of heritage assets and the renewal of urban areas in communities throughout Tasmania.

Audit conclusion

Premier's Sundry Grants Program

There was no persuasive evidence that Premier's Grants were being provided for political advantage. However, guidelines were inadequate and poorly promulgated, approval processes did not include objective assessment, eligibility criteria were informal and monitoring was not common.

In addition, budgets for Premier's Grants were based on unconvincing rationales and were frequently, and substantially, exceeded for equally unconvincing reasons.

Urban Renewal and Heritage Fund

URHF is a fund that was designed to have a specific purpose and a limited lifespan. There was no evidence of overt political use of the fund with funded projects based on a genuine apolitical assessment by the Department of Treasury and Finance (Treasury). There was also no evidence of political bias in the timing or location of grants.

On the other hand, there were instances of non-compliance with the principles outlined in TI 709 in the areas of risk assessment, monitoring and reporting.

List of recommendations

This table reproduces recommendations applicable to Premier's Grants.

Rec No	Section	We recommend that ...
1	1.2	... DPAC implements a realistic basis for setting funding levels for Premier's Grants and that these levels only be exceeded for clearly defined and documented reasons.
2	1.3	... the budget for Premier's Grants only be exceeded in election years under exceptional circumstances.

3	1.4	<p>... the Government impose formal eligibility criteria for consideration of applicants for Premier's Grants including:</p> <ul style="list-style-type: none"> ▪ community benefit ▪ no access to other grant programs ▪ is a one-off payment ▪ no inequity or in response to a particular hardship ▪ no recent prior funding ▪ made for relatively small amounts, e.g. \$10 000.
4	1.5	... a formal recommendation be provided by DPAC to the Premier prior to approval being given.
5	1.6	... the Government develop guidelines including eligibility criteria for Premier's Grants. Once developed, these guidelines should be disseminated to all Members of Parliament and made available on DPAC's website.
6	1.7	... funding agreements, including risk management, monitoring, and fund acquittal requirements appropriate to the size of the grant, be completed and retained for all grants in accordance with TI 709.
7	1.9	... DPAC review the Premier's Sundry Grants Program in accordance with Treasurer's Instruction 709.

This table reproduces recommendations applicable to URHF.

Rec No	Section	We recommend that ...
6	2.7	... funding agreements, including risk management, monitoring and fund acquittal requirements appropriate to the size of the grant, be completed and retained for all grants in accordance with TI 709.
8	2.2	... substantial funding only be made available on the basis of identified needs and defined priorities.
9	2.4	... Treasury set eligibility criteria that are sufficiently well defined to ensure adherence to the publicly declared objectives for which grant schemes were established.
10	2.5	... Treasury ensure that documentation of all URHF proposals, evaluations and approvals is retained.
11	2.5	... Treasury rigorously apply project evaluation criteria in providing recommendations to the Treasurer.

12	2.9	... Treasury review grant programs annually and report review findings in its Annual Report.
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Audit Act 2008 section 30 — Submissions and comments received

Audit Act 2008 section 30 — Submissions and comments received

Introduction

In accordance with section 30(2) of the *Audit Act 2008*, copies of this report, or relevant extracts of this report, were provided to the government departments indicated below. A copy of this report was also provided to the Treasurer with a request for comment or submissions.

The comments and submissions provided are not subject to the audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with those who provided a response or comment.

Submissions and comments received

Treasurer/Premier

Thank you for providing me with the opportunity to provide comments on the draft of your report concerning the Premier's Sundry Grants Program and the Urban Renewal and Heritage Fund. I write in my capacity as both Premier and Treasurer.

Premier's Sundry Grants Program

Before commenting on the specific recommendations, I want to provide some background about the Premier's Sundry Grants Program.

The Premier's Sundry Grants Program has been in existence for many years and has provided past Premiers, both Labor and Liberal, with access to a legitimate discretionary fund, that has been used to support many worthwhile activities, groups and individuals to the general benefit of all Tasmanians.

The Premier's Sundry Grants Program provides the Premier with a simple and straightforward mechanism to support, on behalf of the entire State, valued community groups and individuals. The funds provided to those individuals or groups are more akin to donations, gifts or ex-gratia payments than the types of grants typically covered by the provisions of Treasurer's Instruction TI 709. In some ways the title 'Grants Program' is a misnomer and should possibly be changed in the future to better reflect the nature and purpose of these payments.

The funds for the Program are allocated and approved by the Parliament via the Budget process for this purpose, i.e. to allow the

Premier discretion to provide grants to community organisations for usually relatively small amounts and for quite specific purposes with tangible outcomes (for example to support the purchase of equipment or the building of a physical asset) or to financially support a specific activity such as travel.

Decisions about grants are at the discretion of the Premier. There is not, and there is not intended to be, any formal application process. Again this is an aspect of the program that distinguishes this discretionary fund from a formal application-based grants program.

These discretionary payments or contributions may arise in many different ways; for instance, as a result of a written or verbal request from a community organisation or a written or verbal request on behalf of a community group by a third party. Sometimes requests arise following visits by members of Parliament to community groups or events. Sometimes an individual may approach a Premier directly as he or she has not been able to find another source of funding for a specific activity.

The availability of the Premier's Sundry Grants Program is not specifically advertised but through the Budget, Estimates process and reporting of grants paid each year in the annual report of the Department of Premier and Cabinet (DPAC) (which is available on the internet), there is a high level of awareness among members of Parliament, community organisations and individuals that the Premier may support certain community purposes through these sort of payments.

A benefit of the Premier's fund is that payments can be made under the program to organisations or individuals having difficulty in accessing alternative sources of funds, or for an activity that does not readily fall within the criteria for other programs.

The grants do not replace existing application-based grants programs such as sport and recreation grants or community development grants programs for which there are formal application and assessment processes. If a request for a sundry grant is received which fits more readily with another formal grants program, the person requesting the grant may be directed to the correct program.

Sundry grants are not intended to cover contracted service-provision arrangements or programs that require detailed or complex service-level agreements, or activities where there is a need for evaluation of the outcomes achieved through the use of a grant.

A specific objective of the program is to ensure that grants are provided with the absolute minimum overhead associated with payment consistent with proper financial control for the type of

payment. Recipient organisations or individuals do not need to have a sophisticated administration capacity.

In relation to your specific recommendations I provide the following comments:

Recommendation 1

That DPAC implements a realistic basis for setting funding levels for Premier's Grants and that these levels only be exceeded for clearly defined and documented reasons.

Comment

Disagree. The funds are administratively allocated to DPAC, but ultimately Parliament sets the budget of the fund each year in agreeing to an allocation being provided to DPAC as part of the Budget process.

Recommendation 2

That the budget for Premier's Grants only be exceeded in election years under exceptional circumstances.

Comment

Agree, in general. However Parliament may agree to increase the Budget. This was done in 2010 after the election that year when a range of election commitments were funded in 2010–11. I agree that these funds were not typical sundry grants and the election commitments could have been funded from a special fund established for that purpose rather than just being tagged onto the Sundry Grants Program. Nevertheless in practical terms this would have made no difference to the outcome. They were commitments the Government had agreed to pay, not grants to be applied for as part of a grant application and assessment process.

Recommendation 3

That the Government impose formal eligibility criteria for consideration of applicants for Premier's Grants including:

- community benefit
- no access to other grant programs
- is a one-off payment
- no inequity or in response to a particular hardship
- no recent prior funding
- made for relatively small amounts, e.g. \$10 000.

Comment

Disagree. The essence of the program is that it is discretionary, flexible and not subject to fixed eligibility criteria. However as a matter of principle I agree that any payment made under the program should be one-off and for relatively small amounts, e.g. \$10 000 or less.

Recommendation 4

That a formal recommendation be provided by DPAC to the Premier prior to approval being given.

Comment

Disagree. The payments are at the Premier's discretion. I may, or may not, seek advice from any source about a specific grant.

Recommendation 5

That the Government develop guidelines including eligibility criteria for Premier's Grants. Once developed, these guidelines should be disseminated to all Members of Parliament and made available on DPAC's website.

Comment

Disagree that the Government develop guidelines including eligibility criteria. The availability of the Premier's Sundry Grants Program is not specifically advertised (there is only a finite level of funding) but through the Budget, Estimates and annual reporting of grants paid each year, there is a high level of awareness among members of Parliament, community organisations and individuals that the Premier may support certain community purposes through grants. Grants will also be listed on the DPAC website. A more formal process would also restrict the flexibility of the Premier of the day to respond quickly to an urgent community need.

Recommendation 6

That funding agreements, including risk management, monitoring, and fund acquittal requirements appropriate to the size of the grant, be completed and retained for all grants in accordance with TI 709.

Comment

Formal funding agreements are not necessary given the general size and purpose of the payments.

Recommendation 7

That DPAC review the Premier's Sundry Grants Program in accordance with Treasurer's Instruction 709.

Comment

I do not consider that this is necessary. The Program is not really a grants program as envisaged by the Treasurer's Instruction. Of course, the Premier and DPAC should keep the program under review as part of normal business.

Urban Renewal and Heritage Fund

I understand that the Department of Treasury and Finance has provided you with comments on your recommendations concerning grants paid from the Urban Renewal and Heritage Fund.

I support those recommendations and have nothing further to add.

Auditor-General's response to the Treasurer/Premier regarding the Premier's Sundry Grants Program

The discretionary nature of the Premier's Sundry Grants Program is acknowledged as is the fact that the program receives scrutiny through the Budget, Estimates and annual reporting processes. However, the discretionary nature should not mean no formal process is needed nor reduce accountability by recipients. The recommendations made are aimed at formalising existing, but inconsistently applied, informal processes. They are also intended to eliminate any perceptions of political motivations, prevent inequitable outcomes and ensure funds are spent for the purposes intended. Be these discretionary grants, donations, gifts or ex-gratia payments, these are taxpayers' monies and I believe there is a need for some elements of formal process.

Department of Premier and Cabinet

Thank you for providing me with the opportunity to provide comments on the draft of your report concerning the Premier's Sundry Grants Program.

Given the purpose of this program the Premier has provided comprehensive written comments to you in her capacity as both Premier and Treasurer.

I have no additional comments to make.

Department of Treasury and Finance

I refer to your memorandum of 30 May 2011 seeking Treasury comments on the recommendations contained in your report into the Urban Renewal and Heritage Fund (URHF). As requested, I provide the following comments.

Recommendation 6

Funding agreements, including risk management, monitoring and fund acquittal requirements appropriate to the size of the grant, be completed and retained for all grants in accordance with TI 709.

Treasury Comment

Treasury supports this recommendation. However, notes that TI 709 *Grant Management Framework* does not apply to whole-of-government funds such as the URHF.

Recommendation 8

Substantial funding only be made available on the basis of identified needs and defined priorities.

Treasury Comment

Given Tasmania has a significant number of heritage assets and urban renewal requirements it was highly likely that a detailed needs assessment would indicate that potential requests would far exceed the Government's capacity to fund these requests.

If it had been demonstrated that there was limited demand for URHF funding, the monies allocated to the Fund could be returned to the Consolidated Fund as a saving. Similarly, if it was demonstrated that there was a high need, the Government could consider, subject to its financial capacity, allocating additional funds to the URHF.

On this basis, and in accordance with previous accepted practice of fund allocations, the funding provided to the URHF was capped at \$25m.

Recommendation 9

Treasury set eligibility criteria that are sufficiently well defined to ensure adherence to the publicly declared objectives for which grant schemes were established.

Treasury Comment

The nature of the URHF means that a wide variety of projects could meet the eligibility criteria of the Fund. This does not in any way mean that the eligibility criteria are deficient.

Treasury notes that the Auditor-General was consulted during the drafting of the URHF Guidelines, which included the eligibility criteria. At a meeting on 30 September 2008, between Treasury Officers and the Auditor-General, the Auditor-General agreed that the Guidelines were appropriate.

Accordingly, Treasury considers the eligibility criteria for the URHF to be both sufficient and appropriate.

Recommendations 10 and 11

Treasury ensure that documentation of all URHF proposals, evaluations and approvals is retained

Treasury rigorously apply project evaluation criteria in providing recommendations to the Treasurer.

Treasury Comment

Treasury supports these recommendations.

Recommendation 12

Treasury review grant programs annually and report review findings in its Annual Report.

Treasury Comment

It is Treasury's view that TI 709 Grant Management Framework does not apply to whole-of-government funds such as the URHF. Nevertheless, Treasury rigorously reviews and monitors the URHF during the financial year.

The annual Budget Papers provide comprehensive details of the application of URHF funds in the upcoming Budget year and over the Forward Estimates period.

In accordance with financial reporting requirements, funding allocated from the URHF is reported in the Annual Report of the agency responsible for management of the grant.

Introduction

Introduction

Background

Prior to and immediately after the March 2010 state election there was considerable media attention around the provision of grants by the incumbent Government. A number of different interest groups expressed concerns that:

- funds were being used to finance projects in marginal electorates
- projects were outside the scope of the relevant fund
- project evaluation criteria had not been satisfied.

During 2010, the Auditor-General received correspondence from the Leader of the Opposition expressing concerns regarding Premier's Sundry Grants (Premier's Grants). In addition, The Greens also raised concerns with the Urban Renewal and Heritage Fund (URHF). The Auditor-General decided to examine both funds as part of a single audit.

Premier's Sundry Grants Program

Premier's Grants is the only grant program within Department of Premier and Cabinet (DPAC) providing grants, allocated at the Premier's discretion, to community organisations on request. The aim of Premier's Grants is to support community and cultural activities with national, statewide or local significance. During 2009–10, \$840 203 was allocated to community organisations from Premier's Grants.

Examples of projects that would typically be funded through Premier's Grants are shown in Table 1.

Table 1: Examples of Premier's Sundry Grant Recipients

Grant	Value	Towards...
Kalang Riding for the Disabled	\$2000	... the costs associated with horse feed.
Lachlan Community Hall Association Inc	\$10 000	... replacing hall flooring.
Runnymede Volunteer Fire Brigade	\$1500	... equipment for the new brigade station.
Northern Midlands Sporting Clays Inc	\$10 000	... staging a national Carnival in 2011.

Metro Claremont Junior Soccer Club	\$500	... the purchase of new equipment.
New Norfolk Rowing Club	\$3000	... the restoration of the collapsed riverbank.
Port Sorell Surf Life Saving Club	\$5750	... the purchase of new shirts.

Urban Renewal and Heritage Fund

The URHF was established from \$25m in proceeds received from the sale of the Hobart International Airport. The aim of the fund was to assist with the conservation and restoration of heritage assets and the renewal of urban areas in communities throughout Tasmania.

Examples of projects financed through the URHF are shown in Table 2:

Table 2: Examples of URHF Projects

Project	Value (\$M)
Princess Wharf Redevelopment (Stages 1 & 2)	13.7
Franklin Wharf Redevelopment	1.0
Glenorchy Art and Sculpture Park	1.8
Makers Workshop Tourism Centre in Burnie	1.0
Low Head Infrastructure Maintenance and Site Improvement	1.0

Audit objective

The audit objectives were to:

- assess the existing guidelines
- determine whether access to both funds was apolitical
- assess monitoring in relation to compliance with guidelines
- assess reporting of approved grants in annual financial statements, annual reports and budget papers.

Audit scope

The audit scope was concerned with:

- fund guidelines
- applications submitted to either fund between January 2008 to December 2010.

The following departments were involved in the audit:

- Premier and Cabinet (DPAC)
- Treasury and Finance (Treasury).

Audit criteria

The audit criteria developed for this audit were aimed at addressing both compliance and effectiveness aspects as follows:

Effectiveness — planning:

- Were there consistent and objective guidelines in determining funding levels?
- Was access to funds apolitical?

Compliance — approval:

- Did adequate guidelines exist?
- Were the guidelines complied with?
- Was approval based on a non-political recommendation from public officer(s)?

Compliance — monitoring and reporting:

- Was monitoring and reporting of grants adequate?

Audit approach

To conduct the audit, we:

- assessed the adequacy and implementation of current guidelines
- examined funding applications, assessments, monitoring reports and sought acquittal evidence
- interviewed relevant departmental and Ministerial staff
- analysed relevant funding data
- reviewed the process determining funding levels
- assessed both funds against principles contained in Treasurer's Instruction (TI 709) *Grant Management Framework*.

Timing

Planning for this audit began in December 2010. Fieldwork was completed in April 2011 and the report was finalised in May 2011.

Resources

The total cost of the audit excluding production costs was \$74 000.

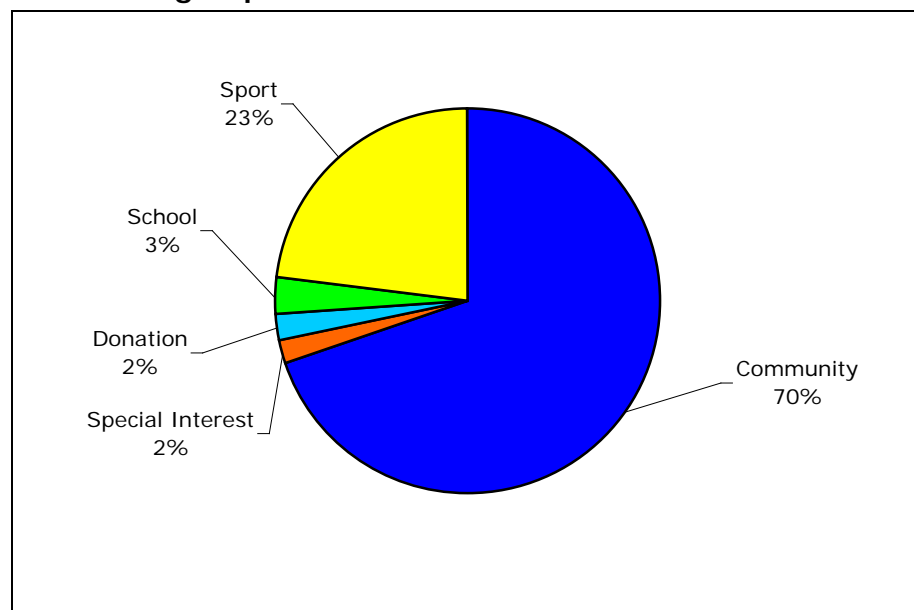
1 Premier's Sundry Grants Program

1 Premier's Sundry Grants Program

1.1 Background

The Premier's Sundry Grants Program (Premier's Grants) exists to allow the Premier to consider requests received for limited financial assistance from groups or individuals. Community organisations can apply for funding by written request to the Premier's Office, or by lobbying a Member of Parliament. TI 709 provides a set of instructions for departments to follow when offering grants to external organisations. Proportion and types of grants allocated in 2009–10 are shown in Figure 1.

Figure 1: Proportion of Premier's Grants by recipient group in 2009–10



These grants are designed to support valued community and cultural activities that are of a national, statewide or local significance. As a result, some payments made from the Premier's Grants do not fall under the typical definition of a grant. For example, a donation made to a not-for-profit organisation would not normally be classified as a grant. In these instances attempts to fully implement TI 709 may prove to be problematic.

The difficulty with such grants is that they tend to be arbitrary since, otherwise, funds would be available from other mainstream channels. So the question arises, for example, why should the Ross football team's uniforms or the Rosny Bowls Club's roof be funded, but no funding is available for other football teams, or sporting organisations? This is not to say that there is no valid purpose for a grants program such as this one. Any mainstream funding mechanism will have rules governing access that are unlikely to fit

all worthy applicants. In addition, discretionary grants may be an efficient mechanism for low-value requests.

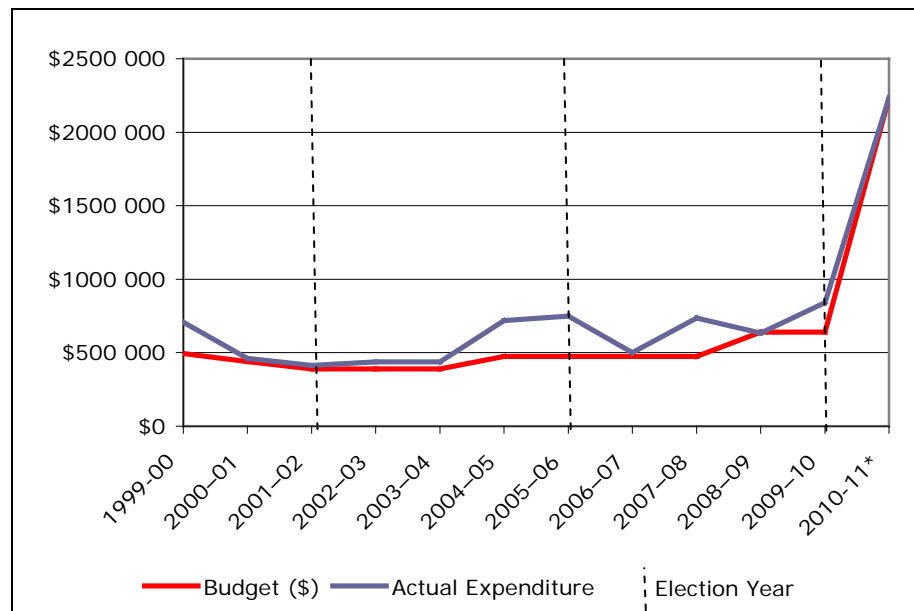
However, we believe that discretionary grants should:

- use a reasonable process for setting funding levels
- avoid heightened spending in the lead up to elections
- use clear and objective criteria for grant approvals
- possess an approval process that includes an apolitical evaluation
- promulgate grants and guidelines effectively
- appropriately monitor funded projects
- distribute funds apolitically
- have adequate public reporting.

Those are some of the issues that we cover in the rest of this Chapter.

1.2 *Was there a reasonable process for setting funding levels?*

The budget for the overall funding level is determined by the annual budget process based on DPAC submissions to Treasury, with variations reported in the budget papers. Figure 2 summarises the changes in Premier's Grants budgeted and actual expenditure over the last ten years.

Figure 2: Budgeted vs actual expenditure between July 1999 and December 2010¹

* 2010–11 only relates to the six months to 31 December 2010, including election commitments totalling \$1.6m.

Figure 2 demonstrates that the budget is routinely exceeded and is not an effective cap on expenditure. The standard mechanism for exceeding budget is submission of requests for additional funding (RAFs) to Treasury. We reviewed the RAFs underlying the additional expenditure and found that they were based on similarly vague arguments.

Prior to 2008–09, the budgeted value of Premier's Grants was \$474 000, however this was increased in the 2008–09 budget to \$640 000. We sighted the submission and noted it was based on the argument that Premier's Grants needed to be:

... adequately resourced to enable the Premier to financially support community and cultural activities with national or statewide significance and community and cultural activities at a local level.

Furthermore, in 2010–11, the budgeted value was increased from \$640 000 to \$2.32m. This increase was mainly made to fund promises made during the 2010 election². In our view, the quoted submission does not represent an objective basis for setting the budget because it does not provide specific reasons as to why additional funding should be granted.

¹ Budgeted and actual expenditure have not been adjusted for inflation.

² 2010–11 Budget Paper No. 2 (Vol. 2), p. 10.3.

In summary, we were not persuaded that a reasonable process existed for setting budgets or for additional funding.

Recommendation 1

We recommend that DPAC implements a realistic basis for setting funding levels for Premier's Grants and that these levels only be exceeded for clearly defined and documented reasons.

1.3 Was there evidence of heightened spending in the lead up to elections?

An increase in funding in the same year as an election would almost certainly indicate that Premier's Grants was being used for political purposes.

We examined the period between 2000 and 2010, in which there were three elections — 2002, 2006 and 2010. As shown in Figure 2, there was significant additional spending in two of the three election years. However, there was also significant additional spending in three of the eight non-election years. As a result, we were unable to conclude that Premier's Grants was being exploited for political purposes. Nonetheless, it would be preferable that excessive discretionary expenditure be avoided in election years in order to avert any perception that taxpayer funds were being used for political purposes.

Recommendation 2

We recommend that the budget for Premier's Grants only be exceeded in election years under exceptional circumstances.

1.4 Were there clear and objective criteria for grant approvals?

No formal program criteria existed but DPAC performed an assessment against informal criteria, namely:

- benefit to the community
- inability to access another grant program
- not a recurrent grant (i.e. it is a one-off payment).

In addition to DPAC's informal criteria, we also believe that reasonable additional criteria would be that:

- The recipient does not receive a significant benefit that is not available to similar bodies, except to overcome a particular hardship, such as a small community losing a

significant industry or a club suffering an uninsured loss.

- The recipient has not received funding from Premier's Grants in the last few years.
- Grants are for relatively small amounts, e.g. \$10 000.

The final criterion is based on our concern that some large grants, mainly 2010 election promises, have been provided under Premier's Grants, as shown in Table 3.

Table 3: Large Premier's Grants Recipients in 2010–11

Grant	Value	Towards...
Rosny Bowls Club	\$500 000	... an indoor facility and other improvements.
Korean Church	\$220 000	... renovations at 73 Brisbane Street.
George Town Bowls Club	\$165 000	... the construction of a synthetic bowls green.
Men's Sheds	\$130 000	... normal business operations of Men's Sheds across Tasmania.
Living Boat Trust	\$100 000	... the <i>On the Water</i> program.
Smithton Fellowship Drop-in Centre	\$100 000	... upgrading and running the organisation's building.
Emu Valley Rhododendron Gardens	\$93 500	... a significant development program.
South Hobart Soccer Club	\$90 000	... upgrading of the Wesley Park facilities.
Channel Football Club	\$80 000	... a lighting upgrade at Snug Park.
Netball Tasmania	\$77 000	... a new state team in the Australian Netball League.
National Heart Foundation	\$50 000	... the 2010 Doorknock Appeal.

Table 3 shows that Premier's Grants has been used to fund a number of projects, including election promises, that we would not normally expect to find falling within the scope of a discretionary fund. We

were concerned that the fund was being used in this way. For this reason, a tightening of the eligibility criteria is recommended.

Recommendation 3

We recommend that the Government impose formal eligibility criteria for consideration of applicants for Premier's Grants including:

- **community benefit**
- **no access to other grant programs**
- **is a one-off payment**
- **no inequity or in response to a particular hardship**
- **no recent prior funding**
- **made for relatively small amounts, e.g. \$10 000.**

1.5 *Did the approval process include an apolitical evaluation?*

To ensure the grant approval process is demonstrably apolitical, it should involve assessment and recommendation by a person removed from the political process, such as a public servant.

An apolitical assessment provides the following benefits:

- avoids perception of political influence
- allows a check of whether an organisation has secured a grant in recent years
- allows a check of whether similar requests from other organisations have been recently refused
- allows time to ensure grants are in accordance with criteria.

We found that approval was by the Premier, on the basis of a recommendation from staff in the Premier's Office. In our opinion, ministerial advisors are not apolitical, and their recommendations cannot be assumed to be apolitical. We also noted some approvals appeared to have occurred after the expenditure had been committed.

DPAC had developed a grant assessment form in an attempt to improve transparency and rigour with the approval process.

However, the forms:

- were only completed for 22 per cent of our sample
- did not include a recommendation

- were sometimes completed by ministerial advisors rather than departmental staff.

Recommendation 4

We recommend that a formal recommendation be provided by DPAC to the Premier prior to approval being given.

1.6 Were the grants and guidelines effectively promulgated?

To ensure equitable and efficient use of a grant, clear guidelines as to eligibility and application processes are a key element. Also, all Members of Parliament and the community need to be aware of both the grant program's existence and its guidelines. That principle is reinforced by TI 709, which requires grant programs to contain publicly available eligibility and selection criteria.

The main guidelines governing Premier's Grants are located within DPAC's financial manual, which cover:

- approval for successful grant applications
- relevant procedures
- grant assessment
- grant payment
- grant acquittals.

These guidelines do not cover eligibility criteria, or monitoring and reporting requirements. In addition, the guidelines were not publicly available or suitable for public dissemination and there was no mention of Premier's Grants on DPAC's website.

We concluded that the guidelines for Premier's Grants were inadequate and had not been effectively promulgated.

Recommendation 5

We recommend that the Government develop guidelines including eligibility criteria for Premier's Grants. Once developed, these guidelines should be disseminated to all Members of Parliament and made available on DPAC's website.

1.7 Were funded projects appropriately monitored?

TI 709 requires terms and conditions of each grant to be set out in a funding agreement including requirements for risk management and monitoring. At a minimum, funding agreements should require

evidence to be provided that funds were spent as intended. For larger projects, we would also expect regular monitoring to ensure that projects have been delivered in accordance with the approved proposal.

To test the level of monitoring, a number of funding agreements and the acquittal process were examined. We found:

- Funding agreements did not exist for 14 per cent of grants.
- No grants had a risk management plan including those greater than \$50 000 in value.
- Grant acquittal information was only available for one of the 28 grants tested.
- There was no evidence of monitoring by DPAC that projects were being, or had been, delivered in accordance with proposals.

We made additional enquiries directly to recipients and were able to get confirmation in most instances that expenditures had been made as intended.

Recommendation 6

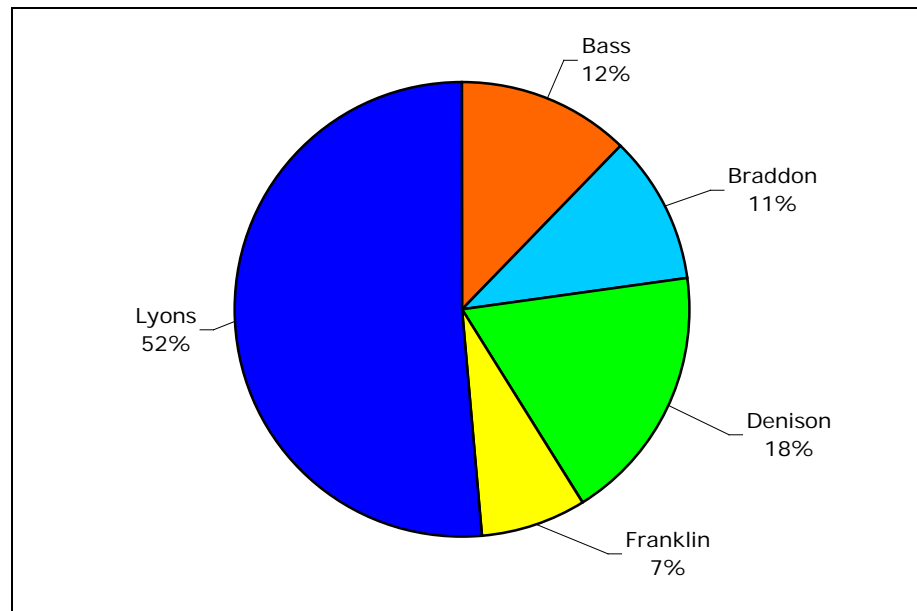
We recommend that funding agreements, including risk management, monitoring and fund acquittal requirements appropriate to the size of the grant, be completed and retained for all grants in accordance with TI 709.

1.8 *Was distribution of funds apolitical?*

In this Section, we discuss whether the distribution of funds between electorates indicated political use of Premier's Grants. The nature of Tasmania's electoral system is that each lower house (House of Assembly) electorate has both government and opposition Members. Accordingly, it is more difficult in the Tasmanian context for a government to disproportionately allocate funds for political advantage. Nonetheless, it is possible to allocate funds in such a manner that it provides support for a marginal candidate or key government member.

Figure 3 shows the funds provided to the five lower house electorates. We have excluded electoral commitments as these are not within the scope of this audit and represent a distortion of 'normal' Premier's Grants.

Figure 3: Funds provided to electorates 2007–10, exclusive of election commitments



We found that all communities benefited from Premier's Grants. However, based on the value of grants provided, the electorate of Lyons had clearly received the most benefit. On inquiry, we were advised that a particular government member in Lyons had been active in advising groups within his electorate of the existence of the Premier's Grants and the mechanism to apply for funding. Our view is that in doing so he was merely performing his duties as an elected Member of Parliament. If anything, our concern is that the scheme may not have been as well promoted in other electorates. This is discussed in Section 1.6.

In any event, we were not persuaded that funds were being allocated to electorates for political advantage. It was not our expectation that funds would be provided equally to electorates — rather, funds should be provided in accordance with need and pre-identified criteria. The lack of such criteria is discussed in Section 1.4.

1.9 *Was there adequate public reporting of Premier's Grants?*

We found that DPAC detailed all grants paid under this program in its annual report. However, we noted that TI 709 also requires that grant programs be reviewed annually and results reported in DPAC's annual report. We found that the last review was performed 2008–09, but had never been publicly reported. We noted that no reviews had ever been reported.

Recommendation 7

We recommend that DPAC review the Premier's Sundry Grants Program in accordance with Treasurer's Instruction 709.

1.10 Conclusion

There was no persuasive evidence that Premier's Grants were being provided for political advantage. However, guidelines were inadequate and poorly promulgated, approval processes did not include objective assessment, eligibility criteria were informal and monitoring was not common.

In addition, budgets for Premier's Grants were based on unconvincing rationales and were frequently, and substantially, exceeded for equally unconvincing reasons.

2 Urban Renewal and Heritage Fund

2 Urban Renewal and Heritage Fund

2.1 *Background*

The Urban Renewal and Heritage Fund (URHF) aims to facilitate both urban and community renewal and heritage conservation works. It does this by supporting construction works that conserve and enhance the State's significant historical, cultural and architectural heritage assets through redevelopment, rehabilitation and preservation.

Requests for funding from the URHF can only be made by government ministers on behalf of their departments. As a result, TI 709 does not apply to all URHF projects. In instances where the funds are not provided to an organisation outside of the State Government, TI 709 is not applicable. Examples of this include the Princes Wharf Redevelopment which was managed by Treasury and the Franklin Wharf Redevelopment which was managed by the Department of Justice. However, we have applied TI 709 to all URHF projects for reasons of consistency and adoption of best practice principles.

The largest project funded under URHF was Hobart's Princes Wharf Redevelopment with a total value of \$13.7m. Other substantial projects included the Glenorchy Art and Sculpture Park (\$1.8m) and the Makers Workshop Tourism Centre (\$1m) at Burnie.

Treasury's proportion of total funding was high, despite the low number of grants it received, because \$13.7m of the total URHF fund was allocated to the Princes Wharf Redevelopment.

As with the Premier's Grants, we believe that discretionary grants need to:

- use a reasonable process for setting funding levels
- avoid heightened spending in the lead up to elections
- use clear and objective criteria for grant approvals
- possess an approval process that includes an apolitical evaluation
- promulgate grants and guidelines effectively
- appropriately monitor funded projects
- distribute funds apolitically
- have adequate public reporting.

Those are some of the issues that we follow up in the rest of this Chapter.

2.2 *Was there a reasonable process for setting funding levels?*

The URHF was a \$25m fund established in 2007–08 with the intention that it continue until the fund was fully depleted rather than receiving regular top-ups.

Treasury advised that the available funds were from proceeds received from the sale of the Hobart International Airport. No assessment of need was performed as Treasury expected that the need would exceed available funds. We would have preferred funding to have been based on demonstrated need rather than on the availability of a particular sum of money.

Recommendation 8

We recommend that substantial funding only be made available on the basis of identified needs and defined priorities.

2.3 *Was there evidence of heightened spending in the lead up to elections?*

An increase in funding in the same year as an election might indicate that URHF was being used for political purposes. Table 4 summarises use of the funds in the first two years.

Table 4: Expenditure and balance remaining in URHF

Financial Year	Expenditure	EOY balance
2008–09	\$3.5m	\$21.5m
2009–10	\$10.3m	\$11.2m

By the end of 2009–10, more than half of the available funds had been spent, with most of the remaining \$11m already committed to projects. Clearly, there was substantial expenditure in 2009–10, although given the timing of the fund’s establishment, that result was not unexpected.

The timing of the establishment of the fund was based on receipt of proceeds from the sale of the Hobart International Airport rather than on the date of the next election. Accordingly, we were unable to conclude that the heightened spending in the election year was political in nature.

However, similarly to our Section 1.3 comments in respect of Premier’s Grants, we consider it preferable that excessive discretionary expenditure be avoided in election years in order to avert perception that taxpayer funds are being used for political purposes.

2.4 *Were there clear and objective criteria for grant approvals?*

Evaluation criteria applied by Treasury included requirements that project costs be fully assessed and alternative sources of funding investigated. Other criteria required that projects must:

- result in positive outcomes and be in line with Government policy
- meet relevant planning and environmental approvals
- not expose the Government to excessive risk
- have support of key stakeholders
- be primarily for capital works
- not result in unfair competition or business advantage.

In addition, Treasury required that, in accordance with the objectives of the URHF, the projects are either urban renewal projects or heritage projects where conservation is urgently required. The wide variety of projects approved suggests that the guidelines were not restrictive, with funding approved for:

- replacement of the old Coles Bay jetty
- re-roofing of the Queen Victoria Museum in Launceston
- moving overhead powerlines underground at Stanley
- building the Launceston Regional Tennis Centre
- conducting a feasibility study of building a light railway from Hobart to the Northern Suburbs.

The above list suggests that, despite the existence of eligibility criteria, the scope of URHF was not succinct. This was particularly the case in relation to urban renewal. For instance, a project was eligible for funding under URHF if it ‘revitalises places and spaces in cities and towns to promote economic, social and cultural opportunities and make them better places to live, visit and invest in’.

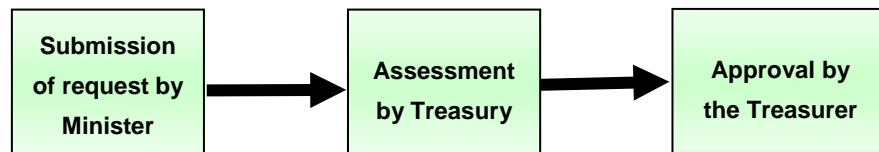
Recommendation 9

We recommend that Treasury set eligibility criteria that are sufficiently well defined to ensure adherence to the publicly declared objectives for which grant schemes were established.

2.5 *Did the approval process include an apolitical evaluation?*

The approval process for the allocation of funds from the URHF involves three steps. Figure 4 outlines the process.

Figure 4: Approval process



Following submission, Treasury routinely evaluated the proposal against evaluation criteria. Treasury’s assessment would then be provided to the Treasurer, who would determine whether to approve the funding.

Where a submission failed to meet a certain criterion, further information was provided or the submission was rejected. As a result of this process, submissions were rejected on three occasions. We were persuaded that, in general, Treasury was performing a legitimate assessment process. Nonetheless, we noted:

- One project proposal and two project evaluation criteria assessments had not been retained by Treasury.
- Four instances (20 percent of our sample) were recommended by Treasury despite Treasury having concluded that the applicants had not investigated alternative sources of funding.

Recommendation 10

We recommend that Treasury ensure that documentation of all URHF proposals, evaluations and approvals is retained.

Recommendation 11

We recommend that Treasury rigorously apply project evaluation criteria in providing recommendations to the Treasurer.

2.6 *Were the grants and guidelines effectively promulgated?*

The main guidelines governing the URHF were the Infrastructure Funds Protocol, published by Treasury and which covered:

- eligibility requirements
- approval process
- funding arrangements
- legal agreements
- monitoring and reporting.

The Guidelines are publicly available on the Treasury website, with all applications for funding submitted by the relevant Minister to Treasury. We were also satisfied that the Government had adequately publicised the URHF when it was established.

2.7 *Were funded projects appropriately monitored?*

We expected regular monitoring to ensure that funds have been expended and projects delivered in accordance with the approved proposal. We also expected that, at least for larger projects, responsible departments would have developed comprehensive risk management plans and strategies. Our expectations were supported by TI 709, which requires terms and conditions for each grant to be set out in a legally enforceable funding agreement, including requirements for risk management and monitoring.

The value of projects funded by URHF ranged between \$5000 and \$12m. In the sample of nineteen projects tested, we found inadequate:

- risk management for 11 projects, including four projects involving funding in excess of \$500 000
- monitoring for eight projects, also including four projects involving funding in excess of \$500 000.

On further inquiry, we were able to confirm that expenditures had been made and projects were proceeding as intended. Our concern was not with the success of the projects, but with the lack of risk management and project monitoring to ensure the funds had been effectively used. We restate Recommendation 6, which states ...

that funding agreements, including risk management, monitoring and fund acquittal requirements appropriate to the size of the grant, be completed and retained for all grants in accordance with TI 709.

2.8 Was distribution of funds apolitical?

In this Section we discuss whether the distribution of funds between electorates was indicative of URHF being used for political purposes. As noted in Section 1.8, our electoral system results in each lower house electorate retaining both government and opposition Members. Nonetheless, as discussed in Section 1.8, it is possible to allocate funds in such a manner that it provides support for a marginal candidate or key government member.

Figure 5 shows the funds provided to electorates from URHF between 2008 and 2010.

Figure 5: Funds provided to each electorate 2008–10

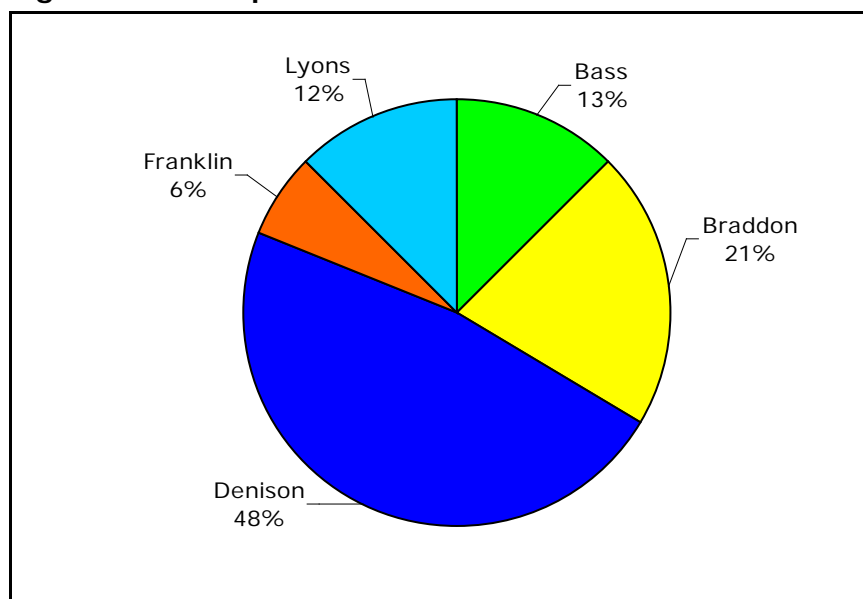


Figure 5 shows that the main beneficiary of the URHF was the electorate of Denison, which received 48 per cent (\$17.6m) of expenditure from the fund. However, that comparison is heavily skewed by two high-value projects in Denison; the Princes Wharf Redevelopment (\$13.7m) and the Glenorchy Arts Sculpture (\$1.8m).

Looking instead at the number of grants allocated, the main beneficiary of the URHF was the electorate of Braddon, with 20 approved grants between 2008 and 2010. However, all Tasmanian communities benefited from receiving grants.

In our opinion there was no persuasive evidence that grants were being allocated to electorates for political advantage. As commented in Section 1.8, it was not our expectation that funds would be provided equally to electorates. Indeed, funds should be provided in accordance with needs and pre-identified criteria.

2.9 *Was there adequate public reporting of URHF?*

To ensure a high level of transparency being followed, we expected to see that the principles of TI 709 were met. TI 709 states that grant programs should be reviewed annually and any findings reported to ensure intended outcomes are being realised. We found that the URHF program was not being annually reviewed.

Recommendation 12

We recommend that Treasury review grant programs annually and report review findings in its Annual Report.

2.10 *Conclusion*

URHF is a fund that was designed to have a specific purpose and a limited lifespan. There was no evidence of overt political use of the fund with funded projects based on a genuine apolitical assessment by Treasury. There was also no evidence of political bias in the timing or location of grants.

On the other hand, there were instances of non-compliance with the principles outlined in TI 709 in the areas of risk assessment, monitoring and reporting.

Independent auditor's conclusion

Independent auditor's conclusion

This independent conclusion is addressed to the President of the Legislative Council and the Speaker of the House of Assembly. It relates to my compliance audit of the Premier's Sundry Grants Program managed by the Department of Premier and Cabinet (DPAC) and the Urban Renewal Heritage Fund managed by the Department of Treasury and Finance (Treasury).

In both State entities I:

- assessed the adequacy and implementation of current guidelines
- examined funding applications, assessments, monitoring reports and sought acquittal evidence
- interviewed relevant departmental and Ministerial staff
- analysed relevant funding data
- reviewed the process determining funding levels
- assessed both funds against principles contained in Treasurer's Instruction (TI 709) Grant Management Framework.

In developing the scope of this audit and completing my work, the parties interviewed provided me with all of the information that I requested. There was no effort by any party to the audit to limit the scope of my work. This Report is a public document and its use is not restricted in any way by me or by any other person or party.

Responsibility of the Secretaries of:

Department of Premier and Cabinet

Department of Treasury and Finance

The Secretaries are responsible for managing the two grants programs in accordance with internal guidelines and protocols established by them.

Auditor-General's responsibility

In the context of this compliance audit, my responsibility was to express a conclusion on whether or not the procedures followed when expending public monies were in compliance with the internal guidelines and protocols established. I decided to also assess compliance with the principles detailed in TI 709.

I conducted my audit in accordance with Australian Auditing Standard ASAE 3100 Compliance Engagements which required me to comply with relevant ethical requirements relating to audit

engagements. I planned and performed the audit to obtain reasonable assurance of whether the processes followed were compliant.

My work involved obtaining evidence of the processes followed by DPAC and Treasury to ensure compliance with internal guidelines and protocols and with the principles in TI 709. My procedures, based on the objectives and scope outlined in the Introduction to this Report, and on the audit criteria developed, were established by me without influence. The procedures depended on my judgement, based on the objectives and scope and on my assessment of the risks of material misstatement of the information obtained by me as part of this audit.

I believe that the evidence I have obtained was sufficient and appropriate to provide a basis for my conclusion.

Auditor-General's conclusion

Based on the audit objectives and scope and for reasons outlined in the remainder of this Report, it is my conclusion that:

Premier's Sundry Grants Program:

There was no persuasive evidence that Premier's Grants were being provided for political advantage. However, guidelines were inadequate and poorly promulgated, approval processes did not include objective assessment, eligibility criteria were informal and monitoring was not common.

In addition, budgets for the grants were based on unconvincing rationales and were frequently, and substantially, exceeded for equally unconvincing reasons.

I made seven recommendations aimed at addressing these weaknesses.

Urban Renewal and Heritage Fund:

There was no evidence of overt political use of the fund with funded projects based on a genuine apolitical assessment by Treasury. There was also no evidence of political bias in the timing or location of grants.

On the other hand, there were instances of non-compliance with the principles outlined in TI 709 in the areas of risk assessment, monitoring and reporting.

I made six recommendations aimed at addressing these weaknesses.

H M Blake

Auditor-General

21 June 2011

Recent reports

Recent reports

	Tabled	Special Report No.	Title
Apr	2008	72	Public sector performance information
Jun	2008	73	Timeliness in the Magistrates Court
Jun	2008	74	Follow up of performance audits April–October 2005
Sep	2008	75	Executive termination payments
Nov	2008	76	Complaint handling in local government
Nov	2008	77	Food safety: safe as eggs?
Mar	2009	78	Management of threatened species
May	2009	79	Follow up of performance audits April–August 2006
May	2009	80	Hydro hedges
Jun	2009	81	Contract management
Aug	2009	82	Head of Agency contract renewal
Oct	2009	83	Communications by Government and The Tasmanian Brand project
Oct	2009	84	Funding the Tasmanian Education Foundation
Nov	2009	85	Speed-detection devices
Nov	2009	86	Major works procurement: Nation Building projects, Treasurer's Instructions 1299 and 1214
Jun	2010	87	Employment of staff to support MPs
Jun	2010	88	Public Trustee — management of deceased estates
Jun	2010	89	Post-Year 10 enrolments
Jul	2010	90	Science education in public high schools
Sep	2010	91	Follow up of special reports: 62–65 and 70
Oct	2010	92	Public sector productivity: a ten-year comparison
Nov	2010	93	Investigations 2004–2010
Nov	2010	94	Election promise: five per cent price cap on electricity prices
Feb	2011	95	Fraud Control
Apr	2011	96	Appointment of the Commissioner for Children
May	2011	97	Follow up of special reports: 69–71 and 73

Current projects

Current projects

Performance and compliance audits that the Auditor-General is currently conducting:

Title	Subject
Profitability, and economic benefits to Tasmania, of Forestry Tasmania	Evaluates Forestry Tasmania's long-term financial and economic performance.
Tourism Tasmania	Examines the effectiveness of Tourism Tasmania with respect to: promotions and advertisements; websites and implementation of planned strategies and initiatives.
Out-of-home care	Assesses the effectiveness of some aspects of the efficiency of out-of-home care as an element of child protection.
Follow up of special reports 75–81	Ascertains the extent to which recommendations from Special Reports 75–81 (tabled from September 2008 to June 2009) have been implemented.
Planning approvals in Tasmania	Examines the current planning approval process used in Tasmania.
TasPorts amalgamation	Evaluates whether the promised benefits of amalgamation have been realised.