



**Australian Government**

**Department of Finance and Deregulation**

# **COMMONWEALTH GRANT GUIDELINES**

**POLICIES AND PRINCIPLES FOR GRANTS ADMINISTRATION**

**July 2009**

## FOREWORD

I am pleased to issue the first *Commonwealth Grant Guidelines* under the *Financial Management and Accountability Regulations 1997*.

The *Guidelines* have effect from 1 July 2009 and represent the whole-of-government policy framework for grants administration.

The *Guidelines* apply to all agencies subject to the *Financial Management and Accountability Act 1997*, and include a number of process requirements that apply to Ministers.

The *Guidelines* are intended to improve the transparency and accountability of grants administration. The Government has mandated transparent and accountable decision-making processes for grants and timely public reporting through agency websites.

The *Guidelines* also recognise the importance of adopting processes that are in proportion to the scale and risk profile of grant activities, and the need to work collaboratively and in partnership with grant recipients, including voluntary and 'not-for-profit' organisations.

I commend the *Guidelines* to all those within the Australian Government involved in grants administration.

Lindsay Tanner  
Minister for Finance and Deregulation

25.6.09

# CONTENTS

## Part I

1. Purpose	5
2. Scope and Objectives	6
3. Legislative and Policy Framework	9
4. Public Reporting	15

## Part II

<i>Key Principles for Grants Administration</i>	17
1. Robust planning and design	19
2. An outcomes orientation	22
3. Proportionality	24
4. Collaboration and partnership	26
5. Governance and accountability	28
6. Probity and transparency	32
7. Achieving value with public money	35

## Acronyms

# **PART I**

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## 1. PURPOSE

- 1.1 These *Commonwealth Grant Guidelines* (CGGs) are issued by the Minister for Finance and Deregulation (Finance Minister) under Regulation 7A of the *Financial Management and Accountability Regulations 1997* (FMA Regulations).<sup>1</sup>
- 1.2 The purpose of the CGGs is to establish the policy framework and articulate the Government's expectations for all departments and agencies (agencies) subject to the *Financial Management and Accountability Act 1997* (FMA Act) and their officials,<sup>2</sup> when performing duties in relation to grants administration.
- 1.3 The CGGs establish the grants policy framework within which agencies determine their own specific grants administration practices. The FMA Regulations require officials to act in accordance with the CGGs when performing duties in relation to grants administration.
- 1.4 The CGGs also contain certain process requirements that apply to Ministers. These include a number of grants-specific decision-making and reporting requirements established by the Australian Government, in addition to the general requirements arising under the financial management framework where Ministers exercise the role of a financial approver.<sup>3</sup> It is the responsibility of agencies to take appropriate steps to advise Ministers of these requirements in a timely manner.
- 1.5 Obligations that *must* be complied with, in all circumstances, are denoted by the use of the term *must* or *mandatory* in these CGGs. The use of the term *should* denotes matters of sound practice. The matters dealt with in Part I generally relate to mandatory requirements, while the matters dealt with in Part II generally relate to sound practice.
- 1.6 The CGGs are a subset of the financial management framework. Breaches of the financial management framework may attract a range of criminal, civil or administrative remedies (including under the FMA Act, the *Public Service Act 1999* and the *Crimes Act 1914*). Agencies *must* also report instances of non-compliance with the financial management framework in their annual Certificate of Compliance.
- 1.7 Bodies subject to the *Commonwealth Authorities and Companies Act 1997* (CAC Act) are legally and financially separate from the Commonwealth and are not subject to the CGGs.

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<sup>1</sup> FMA Regulation 7A provides that the Finance Minister may issue guidelines about matters relating to grants administration, and may require that a matter must be published in the way set out in the guidelines.

<sup>2</sup> Official is defined in section 5 of the FMA Act to mean a person who is in an Agency or is part of an Agency.

<sup>3</sup> FMA Regulation 3 provides that an approver (ie. a person who may approve proposals to spend public money under the FMA Regulations) means a Minister, a Chief Executive or other authorised person.

## 2. SCOPE AND OBJECTIVES

### Objectives of grants administration

- 2.1 The fundamental objective of grants administration is to establish the means to efficiently, effectively and ethically administer Australian Government funding to approved recipients in accordance with government policy outcomes.
- 2.2 This objective is supported through the:
- a. legislative, policy and reporting framework for grants administration set out in Part I of the CGGs; and
  - b. seven key principles for grants administration set out in Part II of the CGGs.

### Scope of the CGGs

- 2.3 The CGGs apply to grants administration performed by Ministers and all officials in agencies.
- 2.4 *Grants administration* encompasses the whole process of granting activity, and includes:
- a. planning and design;
  - b. selection and decision-making;
  - c. the making of a grant;
  - d. the management of funding agreements;
  - e. reporting; and
  - f. review and evaluation.
- 2.5 *Grants administration* also encompasses a situation where another agency or third party is responsible for the administration of an agency's granting activity.<sup>4</sup>
- 2.6 FMA Regulation 3A(1) defines a *grant* as an arrangement for the provision of financial assistance by the Commonwealth:
- a. under which public money<sup>5</sup> is to be paid to a recipient other than the Commonwealth;<sup>6</sup> and

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<sup>4</sup> Where third parties are involved agencies should note that issues relating to the handling of public money by 'outsiders' under section 12 of the FMA Act may arise.

<sup>5</sup> Public money is defined in section 5 of the FMA Act.

<sup>6</sup> A recipient means a recipient that is external to the legal entity of the Commonwealth. Notional payments and receipts by agencies within the meaning of section 6 of the FMA Act are not grants.

- b. which is intended to assist the recipient achieve its goals; and
- c. which is intended to promote 1 or more of the Australian Government's policy objectives;<sup>7</sup> and
- d. under which the recipient is required to act in accordance with any terms or conditions specified in the arrangement.

2.7 A granting activity can take a variety of forms, including a payment made on a one-off or *ad hoc* basis, payments made as a result of competitive assessment, or provided specified criteria are satisfied.

2.8 FMA Regulation 3A(2) provides that the following arrangements are taken not to be *grants*:

- a. the procurement of property or services by an agency including the procurement of the delivery of a service by a third party on behalf of an agency;<sup>8</sup>
- b. a gift of public property or public money, including an *ex gratia* payment;
- c. a payment of compensation made under:
  - i) an act of grace arrangement; or
  - ii) an arrangement for employment compensation; or
  - iii) a similar arrangement;<sup>9</sup>
- d. a payment of benefit to a person,<sup>10</sup> including a payment of an entitlement established by legislation or by a government program;
- e. a tax concession or offset;
- f. an investment or loan of public money;<sup>11</sup>
- g. financial assistance provided to a State in accordance with section 96 of the Australian Constitution;

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<sup>7</sup> In an accounting sense, a grant is a non-exchange transaction, as government does not directly receive approximately equal economic value directly in return.

<sup>8</sup> The procurement of property or services is subject to the *Commonwealth Procurement Guidelines* (CPGs). Paragraph 2.3 of the CPGs provides that in addition to the acquisition of property or services by an agency for its own use, procurement also encompasses a situation where an agency is responsible for the procurement of property or services for other agencies, or for third parties.

<sup>9</sup> Including, but not limited to, payments under the Scheme for Compensation for Detriment caused by Defective Administration; payments under section 73 "Payments in special circumstances" of the *Public Service Act 1999*; payments under the *Remuneration Tribunal Act 1973*; and settlements made in accordance with the Legal Services Directions.

<sup>10</sup> The *Acts Interpretation Act 1901* provides that a "person" includes a body politic or corporate as well as a natural person (i.e. an individual).

<sup>11</sup> Some forms of financial assistance provided by way of concessional loans may be subject to the CGGs.

- h. a payment to a State or a Territory that is made for the purposes of the *Federal Financial Relations Act 2009*, including the following:<sup>12</sup>
  - i) General Revenue Assistance;
  - ii) Other General Revenue Assistance;
  - iii) National Specific Purpose Payments;
  - iv) National Partnership Payments;
- i. a payment that is made for the purposes of the *Local Government (Financial Assistance) Act 1995*;<sup>13</sup>
- j. a payment that is made for the purposes of the *Schools Assistance Act 2008*;<sup>14</sup>
- k. a payment that is made for the purposes of the *Higher Education Support Act 2003*.<sup>15</sup>

2.9 Additional guidance on the financial arrangements referred to in paragraph 2.8 is available in relevant Finance Circulars issued by the Department of Finance and Deregulation (Finance).<sup>16</sup>

### **Agency guidance**

- 2.10 Three key types of documents set out and explain the grants policy framework:
- a. the CGGs, issued by the Finance Minister, which establish the grants policy framework;
  - b. Finance Circulars, issued by Finance, which provide more detailed guidance on aspects of the grants policy framework and the financial management framework, and advise of key changes and developments in the framework; and
  - c. guidance documents developed by Finance or other agencies as necessary, to assist agencies to implement the grants policy framework.

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<sup>12</sup> Other forms of financial assistance made to States and Territories may be subject to the CGGs.

<sup>13</sup> Other forms of financial assistance made to local government may be subject to the CGGs.

<sup>14</sup> Other forms of financial assistance made to educational institutions may be subject to the CGGs.

<sup>15</sup> Other forms of financial assistance made to educational institutions may be subject to the CGGs.

<sup>16</sup> At the time these CGGs were published, the relevant Circular was Finance Circular No. 2009/03 *Grants and other common financial arrangements*, available on the Finance website at [www.finance.gov.au](http://www.finance.gov.au).



### 3. LEGISLATIVE AND POLICY FRAMEWORK

- 3.1 Ministers, agencies and officials operate within an environment of legislation and relevant government policy. Within this broad context, the financial management framework consists of the legislation and policy governing the management of the Australian Government's resources.
- 3.2 The grants policy framework is a subset of the financial management framework.
- 3.3 Officials involved in grants administration are accountable for complying with legislative requirements and relevant government policies. These include the CGGs, the FMA Act and FMA Regulations, and other policies and legislation that interact with grants administration.
- 3.4 Agencies are responsible for advising Ministers on the requirements of the CGGs.

#### Key legislative requirements

- 3.5 The FMA Act and FMA Regulations provide the accountability framework for grants administration. Grant administrators need to consider their agency's obligations under the FMA Act and FMA Regulations when undertaking grants administration. It is appropriate for Chief Executive's Instructions (CEIs), operational guidance and grant guidelines to cross-reference these requirements, as appropriate, and include the agency's specific requirements.<sup>17</sup>
- 3.6 Section 44 of the FMA Act provides that an agency Chief Executive *must* manage the affairs of the agency in a way that promotes proper use of the Commonwealth resources for which the Chief Executive is responsible. Proper use means efficient, effective and ethical use that is not inconsistent with the policies of the Commonwealth.
  - a. Section 44 is an overarching requirement applying to all aspects of an agency's resource management, including grants administration.<sup>18</sup>
  - b. Chief Executives mainly discharge their responsibility under section 44 by ensuring that their agencies have appropriate policies, procedures and guidelines in place. Agencies determine their specific practices and procedures for grants administration, provided they are consistent with the CGGs and the financial management framework.

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<sup>17</sup> More detailed guidance on the operation of the FMA Act and Regulations is available in relevant Finance Circulars. At the time these CGGs were published, the relevant Circulars were: Finance Circular No. 2009/05, *Commitments to spend public money (FMA Regulations 7 to 13)*; and Finance Circular No. 2007/01, *FMA Regulation 10*. Agencies should consult the Finance website at [www.finance.gov.au](http://www.finance.gov.au) for the most recent Circulars, which are amended from time-to-time.

<sup>18</sup> Section 44 also includes the following note "A Chief Executive has the power to enter into contracts, on behalf of the Commonwealth, in relation to the affairs of an Agency. Some Chief Executives have delegated this power under section 53."

- c. While Chief Executives are responsible for the management of their agencies, they are required to manage within the context of the Australian Government's policy framework. The CGGs are the core policy of the Commonwealth relating to grants administration. Other policies which may be relevant for grants administration are discussed below.
- 3.7 FMA Regulation 7A provides that an official performing duties in relation to the administration of grants *must* act in accordance with the CGGs.
- 3.8 FMA Regulation 13 provides that a person - who can be a Minister, official or other person - *must* not enter into a contract, agreement or arrangement under which public money is, or may become, payable unless a spending proposal has been approved under FMA Regulation 9 and, if necessary, in accordance with FMA Regulation 10.
- a. FMA Regulation 13 applies to any contract, agreement or arrangement under which public money is, or may become, payable.<sup>19</sup>
- 3.9 FMA Regulation 9 provides that an approver *must* not approve a spending proposal unless the approver is satisfied, after reasonable inquiries, that giving effect to the spending proposal would be a 'proper use' of Commonwealth resources.
- a. Section 44(3) of the FMA Act defines 'proper use'. Proper use means efficient, effective and ethical use that is not inconsistent with the policies of the Commonwealth.
  - b. FMA Regulation 3 defines an approver for the purposes of FMA Regulation 9. An approver means a Minister, a Chief Executive or authorised person.
  - c. FMA Regulation 9 applies to all spending proposals, including those arising as part of grants administration. FMA Regulation 3 defines a spending proposal as a proposal that could lead to the creation of a contract, agreement or arrangement under which public money is payable or may become payable.
- 3.10 FMA Regulation 9 establishes a single test - comprising a number of elements - which *must* be applied by an approver. In applying the test, an approver is required to balance the various elements, in order to determine whether giving effect to the spending proposal would be an efficient, effective and ethical use of Commonwealth resources that is not inconsistent with the policies of the Commonwealth.<sup>20</sup>

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<sup>19</sup> Such contracts, agreements or arrangements include funding agreements entered into as part of grants administration.

<sup>20</sup> Finance Circular No 2009/05 *Commitments to spend public money (FMA Regulations 7 to 13)* provides further guidance on the application of the FMA Regulations.

- a. FMA Regulation 9 is consistent with, and further reinforces, the requirement in section 44 of the FMA Act, to promote efficient, effective and ethical use of resources *in the context of government policy*.
- 3.11 A grant funding agreement *must* be consistent with the terms of the approval given under FMA Regulation 9, including any conditions on the approval.
- 3.12 FMA Regulation 10 provides that if any of the expenditure under a spending proposal is expenditure for which an appropriation of money is not authorised by the provisions of an existing law (or a proposed law before the Parliament), an approver *must* not approve the spending proposal unless the Finance Minister has given a written authorisation for the approval.
- a. FMA Regulation 10 has particular relevance for multi-year grants, as there may be insufficient uncommitted appropriation for planned expenditure.
  - b. The Finance Minister has delegated powers relating to FMA Regulation 10, with certain directions, to agency Chief Executives.<sup>21</sup>
  - c. If required, FMA Regulation 10 authorisation *must* be obtained from the Finance Minister or an authorised delegate before a spending proposal is approved under FMA Regulation 9.
- 3.13 FMA Regulation 12 provides that if approval of a spending proposal has not been given in writing, the approver must record the terms of the approval in writing as soon as practicable after giving the approval.
- a. The recording requirements for *grants* differ from those relating to other spending proposals. FMA Regulation 12 contains the additional requirement to record the basis of an approval, in addition to the terms of the approval. In recording the basis of an approval, an approver *must* record the substantive reasons for the approval, in addition to the factual terms of the approval.
  - b. FMA Regulation 3A defines a grant for the purposes of FMA Regulation 12.
- 3.14 Agencies should note the implications of sections 5 and 12 of the FMA Act when considering the involvement of third parties in grants administration.
- a. Section 5 defines public money as money in the custody or under the control of the Commonwealth, or money in the custody or under the control of any person acting for or on behalf of the Commonwealth in respect of the custody or control of the money.

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<sup>21</sup> At the time these CGGs were published the relevant delegations were the Financial Management and Accountability (Finance Minister to Chief Executives) Delegation 2009 and the Financial Management and Accountability (Finance Minister to Finance Chief Executive) Delegation 2009. Agencies should consult the Finance website at [www.finance.gov.au](http://www.finance.gov.au) for the most recent delegations, which are amended from time-to-time.

- b. Section 12 requires the Finance Minister’s written authorisation before entering into an arrangement involving the receipt, custody or payment of public money by an ‘outsider’.<sup>22</sup>
- 3.15 More generally, agency staff involved in grants administration *must* ensure that they:
- a. always take care to behave in accordance with the law (including regulations), government policy, agency rules (for example, CEIs) and with applicable funding agreements;
  - b. keep commercially sensitive information secure and never use it for personal gain or to prejudice grants administration processes;
  - c. disclose information that the Government requires to be notified; and
  - d. disclose to their agency any form of current or prospective personal interest that might create a conflict of interest in grants administration.

### **Key policy requirements**

- 3.16 Under the financial management framework, there is an overarching requirement to manage an agency’s affairs efficiently, effectively and ethically within the context of the Australian Government’s policy framework.<sup>23</sup>
- 3.17 The policy requirements relating to grants administration include:
- a. the CGGs, which are the core policy of the Commonwealth relating to grants administration;
  - b. applicable policies and legislation of the Commonwealth. These may include, but are not limited to policies relating to privacy, government advertising, anti-discrimination, social inclusion, freedom of information and sector specific policies, such as health and transport policies;<sup>24</sup>
  - c. the guidelines applying to a granting activity, such as grant program guidelines; and
  - d. grants-specific process requirements decided from time-to-time by the Australian Government (see below).

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<sup>22</sup> An outsider means any person other than the Commonwealth, an official or a Minister. The Finance Minister has delegated to agency Chief Executives the power to authorise arrangements for the receipt and custody of public money by an outsider, but not the power to authorise arrangements for the payment of public money by an outsider.

<sup>23</sup> See section 44 of the FMA Act and FMA Regulation 9.

<sup>24</sup> Many of these policies are the responsibility of agencies outside the Finance portfolio. The agency administering a policy is responsible for providing further information if required. The *Administrative Arrangements Order* (AAO) includes a list of Departments of State and their responsibilities. The AAO is available from [www.pmc.gov.au](http://www.pmc.gov.au).

## Grants-specific process requirements

3.18 The Australian Government has introduced a number of grants-specific process, decision-making and reporting requirements applying to agencies and Ministers. These *mandatory* requirements, which are set out below, are in addition to the general requirements of the FMA Act and FMA Regulations.

### *Ministerial requirements*

3.19 The Australian Government has agreed that where a Minister exercises the role of a financial approver relating to a grant,<sup>25</sup> they will not approve the grant without first receiving agency advice on the merits of the proposed grant.

3.20 The Australian Government has also agreed that decisions involving the award of grants within a Minister's own electorate (House of Representatives members only) will remain within the remit of the responsible Minister or other approver in the portfolio or agency concerned.<sup>26</sup>

- a. Each time a Minister (House of Representatives members only) approves a grant in respect to their own electorate, the Minister will write to the Finance Minister advising the Finance Minister of the details.
- b. Where there is correspondence to the relevant grant recipient, a copy of this letter is sufficient, except in the circumstances outlined in paragraph 3.21(c). If there is no correspondence, Ministers will write to the Finance Minister advising of the decision as soon as practicable after it is made.

3.21 The Australian Government has further agreed that decisions involving the award of grants which the relevant agency has recommended be rejected, will remain within the remit of the responsible Minister.

- a. Ministers will report annually to the Finance Minister on all instances where they have decided to approve a particular grant which the relevant agency has recommended be rejected. The report will include a brief statement of reasons (i.e. the basis of the approval for each grant).
- b. The report will be provided to the Finance Minister by 31 March each year for the preceding calendar year.<sup>27</sup>
- c. However, if a decision also relates to a Minister's own electorate (House of Representatives members only) the Minister will also include this information when writing to the Finance Minister in the context of the process outlined in paragraph 3.20.

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<sup>25</sup> FMA Regulation 3 provides that an approver (i.e. a person who may approve spending proposals under FMA Regulation 9) can include a Minister, and defines a spending proposal.

<sup>26</sup> Noting that an approver under FMA Regulation 12 must record the basis of an approval, in addition to the terms of the approval.

<sup>27</sup> Finance Circular 2009/04 *Grants - Reporting Requirements*, contains additional guidance on the form of the report, and is available from the Finance website at [www.finance.gov.au](http://www.finance.gov.au).

### ***Expenditure Review Committee requirements***

- 3.22 The Australian Government has agreed that the Expenditure Review Committee (ERC) will consider guidelines for new *grant programs*.
- a. Where a change is proposed to the guidelines for an existing grant program, agencies should consult with Finance on whether the proposed change will give rise to the need for ERC consideration of the guidelines.

### ***Agency requirements***

- 3.23 Agencies are responsible for advising Ministers on the requirements of the CGGs, and *must* take appropriate and timely steps to do so where a Minister exercises the role of a financial approver in grants administration.
- 3.24 Agencies *must* develop grant guidelines for new grant programs, and make them publicly available (including on agency websites) where eligible persons and/or entities are able to apply for a grant under a program.
- 3.25 Agencies *must* ensure that grant guidelines and related operational guidance are in accordance with the CGGs.

## 4. PUBLIC REPORTING

4.1 Effective disclosure and reporting arrangements for grants are essential for reasons of transparency and public accountability. Reliable and timely information on the details of grants awarded is a precondition for public and parliamentary confidence in the quality and integrity of grants administration.

### Web-based reporting requirements

4.2 An agency *must* publish, on its website, information on its individual grants no later than seven working days after the funding agreement for the grant takes effect.<sup>28</sup>

4.3 The default position is that all agencies *must* report all grants awarded on their website.<sup>29</sup>

4.4 There may be circumstances where an agency determines that public reporting of grants in accordance with the CGGs is contrary to the *Privacy Act 1988* (Privacy Act), other statutory requirements, or the specific terms of a funding agreement.

- a. In these circumstances, an agency *must* endeavour to publish as much information as legally possible. For example, it may be possible to omit the name of the grant recipient and other personal information that may contravene the Privacy Act, but report other grant details.
- b. The reasons for not reporting fully *must* be documented by the agency.
- c. Agencies should also take all possible steps to ensure that future funding agreements contain provisions that do not prevent the disclosure of information.

4.5 Where an agency determines that publishing grant information in accordance with the CGGs could adversely affect the achievement of government policy outcomes, the responsible Minister should write to the Finance Minister detailing the case for exemption. Agencies should consult with Finance before commencing this process.

4.6 Grants information should be retained on an agency's website for at least two financial years. Where it is not practicable to do so (for example, due to the exceptional volume of grants needing to be maintained on the website) agencies should retain appropriate records, consistent with their accountability obligations, and ensure the records are available on request.

- a. The reasons for an agency not retaining grants information on its website for at least two financial years *must* be documented by the agency.

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<sup>28</sup> The date of effect will depend on the particular arrangement. It can be the date on which a funding agreement is signed, or a specified starting date, or may relate to a specified event.

<sup>29</sup> Finance Circular 2009/04 *Grants - Reporting Requirements*, contains detailed guidance on the information to be published by agencies. It is available on the Finance website at [www.finance.gov.au](http://www.finance.gov.au).

# **PART II**

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# KEY PRINCIPLES FOR GRANTS ADMINISTRATION

## Introduction

The Australian Government has established seven key principles for grants administration:

1. Robust planning and design.
2. An outcomes orientation.
3. Proportionality.
4. Collaboration and partnership.
5. Governance and accountability.
6. Probity and transparency.
7. Achieving value with public money.

Chief Executives mainly discharge their responsibility for grants administration by ensuring that their agencies have appropriate policies, procedures and guidelines in place to implement the requirements of the CGGs.

Agencies should have procedures in place to ensure that grants administration is conducted soundly and that granting activity is appropriately documented, defensible and substantiated in accordance with legislation and government policy. Grants administration that is well planned, conducted and documented, and which accords with government policy, is well placed to withstand external scrutiny.

Chief Executives of agencies subject to the FMA Act are authorised to issue Chief Executive's Instructions (CEIs) to officials on any matter necessary or convenient for carrying out or giving effect to the FMA Act or FMA Regulations.<sup>30</sup> The CGGs provide the framework within which Chief Executives may issue CEIs and associated operational guidance related to grants administration in a specific agency. In the area of grants administration the CEIs may:

- interpret the grants policy framework and the wider financial management framework, focussing on the agency's particular needs; and
- provide primary operational instructions to agency officials in carrying out their duties related to grants administration, in a way that is tailored to the agency's particular circumstances and needs.

Agencies *must* ensure that grant guidelines and related operational guidance are in accordance with the CGGs.

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<sup>30</sup> See section 52 of the FMA Act.

The remainder of Part II outlines aspects of sound practice which agencies should have regard to in implementing the key principles.<sup>31</sup>

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<sup>31</sup> Part II draws extensively on the *Administration of Grants: Better Practice Guide* (Australian National Audit Office, May 2002).

## 1. ROBUST PLANNING AND DESIGN

High quality planning underpins efficient, effective and ethical grants administration. There should be confidence, before granting activity occurs, that the relevant planning issues have been addressed and built into the design of a granting activity.

- The specific issues to be addressed will depend in part on the nature of the granting activity. A complex grant program will, for example, require a different approach to a grant made on a one-off basis.

Agency planning processes should have proper regard to all relevant issues, including the need to:<sup>32</sup>

- establish the need for the granting activity;
- define the operational objectives for the granting activity;
- design the granting activity to achieve value for public money;
- ensure that eligibility criteria reflect the policy intent;
- design the granting activity for accountability, probity and transparency;
- communicate effectively with potential recipients;
- establish performance and evaluation measures;
- select an appropriate funding strategy;
- consider taxation matters;
- consider the Australian Government's accounting treatment;
- develop appropriate documentation, such as grant guidelines;
- consider legal and policy matters; and
- undertake risk management.

Risk is part of the environment within which agencies operate, and risk management should be built into an agency's grants administration processes at the planning and design phase. Risk management involves the systematic identification, analysis, treatment and allocation of risks. The extent of risk management required in grants administration will vary, because a variety of risks may arise during each stage of grants administration.

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<sup>32</sup> Agencies may identify other matters requiring consideration at the planning stage, depending on their specific circumstances.

Agencies should ensure that appropriate procedures are in place to identify and consider all relevant risks throughout the process of grants administration. Specific risks to granting activity could include:

- fraud or misrepresentation;
- breaches of privacy or security of on-line application systems;
- grants being awarded to ineligible individuals or organisations, or to organisations which may not be able to complete a project effectively;
- grants being awarded for projects or activities that are inconsistent with the objectives of the granting activity;
- use of grant funds for purposes contrary to the terms and conditions of the grant;
- changes in the status and/or competence of the recipient that could adversely affect their ability to carry out or complete relevant project work;
- individuals or organisations being treated inequitably in the appraisal of applications and awarding of grants;
- granting activity not contributing to the achievement of an agency's strategic directions, or to government outcomes;
- incremental and undocumented changes in the interpretation of grant program objectives or guidelines over time;
- actual or perceived conflicts of interest;
- unapproved variations to projects during the period of the grant;
- unclear or shared accountabilities;
- the possibility of 'double-dipping' (that is, grant recipients being able to obtain grant funding for the same project purpose from more than one source);
- the possibility of 'cost shifting' or 'substitution of effort' between different levels of government;
- the effect of partial or insufficient grant funding on the viability of projects;
- expectations of ongoing funding where a grant program provides recurrent funding and may give rise to an expectation by a recipient that it will receive funding in subsequent program rounds; and
- pressure to implement programs urgently.

Risk management is not a static activity. It is best supported by a sound performance information system that facilitates the continuous identification and treatment of emerging risks during grants administration.

## 2. AN OUTCOMES ORIENTATION

Grants administration should focus on the delivery of government outcomes. Government outcomes are the intended results, impacts or consequences of actions by the Government on the Australian community.

Granting activity should have a performance framework that links an agency's strategic directions and the grant's operational objectives to government outcomes.

- An agency's strategic direction is a statement at the strategic level of what it seeks to achieve. It is recorded in an agency's Portfolio Budget Statements.
- The operational objective for a granting activity is a statement of what the granting activity is intended to achieve.
- Government outcomes are the intended results, impacts or consequences of actions by the Government on the Australian community. The Australian Government requires agencies to measure their intended and actual performance in terms of outcomes.

Granting activity should operate under clearly defined and documented operational objectives. Operational objectives should be a concise, unambiguous, realistic, outcome-oriented statement of what the granting activity is intended to achieve.

Operational objectives should:

- be clearly linked to the outcomes set by government;
- be linked to an agency's strategic directions and stated in such a way that clearly communicates what is to be achieved, measured and/or assessed;
- include quantitative, qualitative and milestone information or be phrased in such a way that it is clear when these objectives have been achieved;
- be authorised or endorsed by Ministers or senior officials, whichever is appropriate;
- be communicated to staff involved in grants administration and to potential applicants; and
- be reviewed regularly, and whenever changes are made to the granting activity.

The more specific the operational objectives, the easier it is to develop supporting documentation (such as selection criteria), limit wasted applications (in the case of grant programs) and develop an appropriate performance information framework.

In adopting an outcomes orientation, agencies should distinguish between outcome measures, output measures and input measures.

- Outcome measures assess the extent to which the granting activity is meeting both the strategic directions and operational objectives of the agency. Outcome measures relate to changes effected in the community and could include, for example: the level of usage of facilities built with grant funding; the level of community involvement resulting from projects; and levels of service delivery.
- Output measures show the extent to which the granting activity's operational targets or milestones have been achieved. Output measures could include, for example: the numbers of completed projects; the numbers of new applicants; and the numbers and/or value of grants awarded.
- Input measures show the inputs, such as cash and resources, consumed by grants administration. They include the costs of administering a grant program or project, and the costs of processing an application.

Grants administration should focus on outcomes and outputs, while seeking the most efficient and effective use of inputs. Performance information should make clear the extent to which the granting activity is contributing to government outcomes, as well as producing expected outputs. In addition, it should reflect the extent to which government outcomes and agency strategic directions remain appropriate in light of changing circumstances that may result from the impact of the granting activity itself.

The purpose of performance information is to assist management and stakeholders to draw well-informed conclusions about performance and take corrective action if necessary. It therefore contributes to timely and effective decision-making in managing and adjusting granting activity. It is also an important input on which to base future decisions for continuing or concluding a granting activity, and contributes to the accountability of agencies for their performance.

In adopting an effective outcomes orientation, agencies should be aware of common traps identified by the Australian National Audit Office (ANAO).<sup>33</sup> These can include:

- assuming that the award of a grant automatically secures the desired outcome; and
- assuming that the consumption of inputs results in the delivery of desired outputs and outcomes.

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<sup>33</sup> *Administration of Grants: Better Practice Guide* (Australian National Audit Office, May 2002).

### 3. PROPORTIONALITY

Granting activity should be ‘fit for purpose’. That is, key design features and related processes should be commensurate with the scale, nature, complexity and risks involved in the granting activity.

Granting activity varies widely in its form, scale and degree of complexity.

- Some granting activities provide short-term, one-off support or assistance to grant recipients, requiring only a broad specification of purposes and relatively simple accountability requirements.
- Other granting activities are project-based, of longer duration and with a much tighter specification of deliverables.
- Yet other granting activities support the ongoing delivery of services, with funding provided to the same or similar organisations more or less continuously over a period of years.

There is, accordingly, a need to strike an appropriate balance, based on proportionality considerations and a measured assessment of risk.

The proportionality principle may, for example, inform the choice of the particular form of funding agreement to be used, so that funding agreements are tailored to the particular granting activity. Relevant considerations include the purpose, value and duration of a grant, the deliverables to be supplied, grant conditions, enforceability considerations, and the nature and level of the risks involved.

- Funding agreements for small-scale, one-off or low risk grants could take the form of a simple letter of offer or exchange of letters, having regard, in the drafting of such documents, to the elements of contract formation and considerations of enforceability.
- More complex grants will require funding agreements such as contracts or deeds. In the case of particularly complex grants involving high levels of conditionality and multiple funding partners, funding agreements may also need to be individually structured to reflect the role, responsibilities and level of control which each of the parties to the agreement is expected to assume.

It may also be appropriate for proportionality principles to inform an agency’s consideration of reporting requirements for recipients. It should not be assumed that the same approach will suit all circumstances, regardless of the scale or purposes of the grant in question or the performance record of the grant recipient. The volume, detail and frequency of reporting requirements should have regard to these matters.

- For example, where grant funding is used to support the ongoing delivery of services from the same organisations over a period of years, agencies may wish to consider adjusting the detail of their accountability and reporting requirements in line with a recipient’s established record of compliance and performance.



- Subject to transparency considerations and risk management principles, it may be reasonable to give recipients with a consistent record of high performance and reliability a greater measure of day-to-day autonomy, relative to other recipients without an established record of performance. It may also be reasonable to consider less detailed reporting requirements for these recipients.
- Where possible and appropriate, consideration may be given to aligning grant reporting requirements with a recipient's internal reporting. For example, grant reporting requirements could be aligned to the reporting cycle and/or the substantive reporting requirements within the recipient organisation.
- Care should be taken to avoid imposing obligations on recipients to provide information which is available from other sources, such as the Australian Bureau of Statistics, peak bodies or a recipient organisation's publicly available material.

A further consideration is the specific focus of agency reporting requirements. Poorly formulated reporting and accountability frameworks, which focus rigidly on outputs rather than outcomes, can potentially stifle innovation and the introduction of best practice by grant recipients, such as not-for-profit organisations in receipt of government funding.

The stringency of acquittal procedures should be balanced against the level of risk and take into account the cost of compliance. Risk management strategies will help achieve this balance.

Judgements relating to proportionality should be made at agency level having regard to risk management principles, with appropriate documentation of reasons. Decisions taken in this regard should periodically be subject to review, so that accountability and reporting requirements remain well aligned to considerations of performance and risk.

## 4. COLLABORATION AND PARTNERSHIP

Without detriment to the other principles, there should be a constructive and cooperative relationship between the administering agency, the grant recipient and other relevant stakeholders. Effective consultation, leading to a shared set of understandings and expectations, will help achieve more efficient and effective grants administration.

It is important to consider the needs and interests of grant recipients. It should not be assumed that the same approach will suit all circumstances, regardless of the scale or purposes of the grant in question or the performance record of the grant recipient.

When developing new grants activities or modifying existing granting activity, it is important to consider seeking stakeholder input. The development of effective working relationships with stakeholders can:

- help identify, overcome, and even avoid fragmentation and unnecessary overlaps in granting activity;
- encourage prospective recipients to understand their rights and have an opportunity to influence the design and delivery of a granting activity. Grant administrators need to ensure that applicants are not disadvantaged by factors which are irrelevant to the selection criteria; and
- help reduce compliance costs for prospective recipients.

Agencies should determine to what extent the operation of a granting activity may interact with other programs, including those run by other bodies. These can include Commonwealth, State, Territory or local government bodies, private trusts and foundations or national or state coordinating organisations. Consultation and co-operation with other bodies can help avoid duplication of effort and improve outcomes for potential recipients and government.

- Care should be taken to establish effective liaison with other organisations, particularly where policy responsibility or program administration are shared between agencies, or where another agency or third party is responsible for the administration of an agency's granting activity.

Agencies should choose methods that will promote open, transparent and equitable access to grants.

- Publicly available grant opportunities should be notified in ways that provide potential applicants with reasonable opportunity to apply.
- Careful consideration should be given to the use of appropriate and effective promotion, whether through modern technology or traditional media, to increase awareness in target groups.<sup>34</sup> Communication channels can include print and broadcast media, news features and editorials, newsletters and direct mail,

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<sup>34</sup> Agencies may also wish to consider using government websites such as GrantsLink ([www.grantslink.gov.au](http://www.grantslink.gov.au)) or the Indigenous Portal ([www.indigenous.gov.au/](http://www.indigenous.gov.au/)) to advertise their grants.

workshops or other special events, public launches or announcements, the internet, and the use of outposted officers.

- Those wishing to respond to grant opportunities should be given adequate information to enable them to do so effectively. Promotional material should set out the various forms of assistance available in a clear and attractive way.<sup>35</sup> Contact points and website details for further information, advice and application forms should be provided. Application forms and the information supplied with them should be easy to understand and provide all necessary information in a logical fashion.<sup>36</sup> The design of the application form should assist applicants to provide information in respect of all selection criteria.
- Timely appraisal avoids possible inequities and waste that may arise through unnecessary delay.

Clear, consistent and well-documented grant guidelines are an important component of effective and accessible grants administration. A single reference source for policy guidance, administrative procedures, appraisal criteria, monitoring requirements, evaluation strategies and standard forms, helps to ensure consistent and efficient grants administration.

- Care should be taken to ensure that the rules of a granting activity are simply expressed and clear in their intent, and are effectively communicated to stakeholders. It may be useful to consider testing the clarity of program information and grant guidelines with relevant client groups.
- As well as being understandable, grant guidelines should clearly inform potential recipients if the Commonwealth has terms and conditions that recipients will need to meet during the life of the project (such as financial and performance reporting).
- Criteria for eligibility should be straightforward, easily understood and effectively communicated to potential applicants. This helps avoid frustration and potential costs to applicants, and assists potential applicants to develop and submit applications that are not ineligible or that have little chance of success.

A well-designed funding agreement will also help establish the basis for a constructive and cooperative relationship between the grantor and the recipient, providing clarity of objectives and a shared set of understandings and expectations.

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<sup>35</sup> A key objective is to make available simple, accurate and consistent material in easily accessible formats (e.g. fact sheets and frequently asked questions, written in plain English). Prompt action should also be taken to update websites and other sources of public information following changes to programs.

<sup>36</sup> The information supplied with application forms should include a statement of the program objectives, the information required to assess the application, the appraisal criteria to be used when assessing applications for approval and their relative importance, and information about the approval process itself (including the closing date for applications and likely decision dates if applicable, an outline of the selection process including who is responsible for making the final recommendations and approvals, requirements for providing performance information, a description of complaint handling, appeal, review and/or FOI mechanisms, and reporting and acquittal requirements to make eventual recipients aware of their accountability obligations).

## 5. GOVERNANCE AND ACCOUNTABILITY

Granting activity should be underpinned by solid governance structures and clear lines of accountability.

Accountability involves ensuring individuals and organisations are answerable for their plans, actions and outcomes. Accountability arrangements in grants administration should relate to both the process of administration and the achievement of government outcomes. Decision-makers, grant administrators and grant recipients all have their respective roles to play in achieving the objectives of a granting activity and should be held accountable for the way in which they fulfil their roles.

It is particularly important to clearly define the roles and responsibilities for all parties involved in grants administration, including Ministers, officials and other parties, where relevant. A robust governance framework, which clearly defines the roles and responsibilities of the various participants, facilitates accountability.

- Agencies should take particular care to ensure that grants administration, including decision-making, conforms to the requirements of the FMA Act, FMA Regulations, and the CGGs.
- Agencies are responsible for advising Ministers on the requirements of the CGGs and the financial management framework. This is particularly important where Ministers have a decision-making role in grants administration.

Where a selection process is undertaken, those involved should be adequately trained and procedure instructions should be available before processing the first application.

- These safeguards are particularly important if grants administration is devolved to regional offices or across agencies, or involves different levels of government or organisations external to the Commonwealth.
- Care should be exercised to ensure that the competing demands on staff time and scarcity of expertise do not lead to variations in the standards of appraisal and administration.

Agencies should develop such policies, procedures and guidelines as are necessary for the sound administration of grants. In the case of grant programs, this should include grant guidelines and associated operational guidance for the administration of the program. When developing such guidance, agencies *must* act in accordance with the CGGs.<sup>37</sup>

Grant program guidelines should be fit for purpose and should include information on the outcomes and objectives of the grant program, governance arrangements (including roles and responsibilities), funding and selection processes, performance monitoring and reporting, evaluation, operational issues and complaint handling mechanisms.

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<sup>37</sup> See paragraph 3.24 of Part I of the CGGs.

Well-drafted funding agreements are necessary for the effective management of grants activities and contribute to good governance and accountability. Funding agreements are also an opportunity to clearly document the expectations of both parties in the delivery of the granting activity. The use of plain English facilitates this.

While no form of funding agreement is right for all circumstances, an enforceable agreement should be established wherever possible. The forms of enforceable agreements include: a deed, a contract, conditional gift and an exchange of letters. Unless legislation or policy mandates the form of an agreement, agencies should choose the appropriate form of agreement based on:

- an analysis of the risks;
- the context in which the grant is made (for example, the nature of the recipient, relevant applicable legislation, and relevant policy directions);
- the desired remedy for non-compliance; and
- legal advice, where appropriate.

Whatever form of funding agreement is chosen, it should protect the Commonwealth's interests in ensuring that public money is used for the intended purpose, define project deliverables, schedule payments (according to progress), and specify progress reporting requirements and acquittal procedures.

Conditions should be expressed with sufficient precision so that it can be determined whether the recipient is complying with those conditions. A well-drafted funding agreement is one that provides for:

- a clear understanding between the parties on required outcomes prior to commencement of funding;
- accountability for, and protection of, Commonwealth funds;
- legal protection of the recipient and the grants organisation; and
- agreed terms and conditions of the funding assistance, including performance information and access requirements and clearly defined roles and responsibilities for all parties.

Where legislation, regulation, government policy or other Ministerial or like direction, impose specific requirements such as how, to whom and in what form a grant is made and specifies particular terms and conditions, grant administrators are bound to adopt and enforce those requirements.

- For example, a funding agreement must be consistent with the terms of the approval given under FMA Regulation 9, including any conditions on the approval.

A well-drafted agreement alone is not sufficient to ensure the objectives of the grant are met. Funding agreements need to be supported by performance and financial monitoring frameworks informed by an analysis of the risks involved.

- Performance monitoring determines the extent to which desired outcomes have been achieved, while financial monitoring determines whether the relevant accountability procedures associated with the funds have been complied with.
- The monitoring of payments and progress are an integral part of good governance and risk management and provide a measure of assurance that public funds allocated to grant recipients have been spent for their intended purposes. Administrative procedures to acquit grants on a regular basis are also an important management control.
- Adequate and well-documented arrangements to ensure financial accountability are the basis of effective grant acquittal. Reliable, timely and adequate evidence is required to demonstrate that grant funds have been expended in accordance with the terms and conditions of the funding agreement. The stringency of acquittal procedures should be balanced against the level of risk and take into account the cost of compliance. Risk management strategies will help achieve this balance.
- Where acquittal is not possible, the decision to recover or write-off outstanding funds should be documented.

Public accountability is dependent on the proper maintenance and availability of relevant documentation. Record keeping is therefore a key component of good corporate governance and accountability. Good record keeping assists agencies to meet their accountability obligations, demonstrate compliance with the CCGs and the financial management framework, and demonstrate that due process has been followed in actions and decisions.

Agencies should have particular regard to the record-keeping requirements of FMA Regulation 12, and the implications for record-keeping of the grants-specific process requirements established by the Australian Government relating to:

- Ministers not approving grants without first receiving agency advice on the merits of a proposed grant;
- decisions involving the awarding of grants within a Minister's own electorate (House of Representatives members only);
- decisions involving the awarding of grants which the relevant agency has recommended be rejected; and
- publishing the details of individual grants on agency websites no later than seven working days after the funding agreement for the grant takes effect.

Good record-keeping also assists agency performance by better informing decision-making and exploiting corporate knowledge. For example:

- where agencies can identify previous and current grant recipients they will be able to more readily identify risks such as the potential for ‘double-dipping’ and maximise opportunities for innovative co-operative funding with other agencies; and
- where selection processes are conducted over an extended period of time the documentation of reasons for decisions can assist the assessment of the relative merits of proposals assessed at different times in the process. This helps to ensure that grant funding is awarded to those projects that best satisfy the objectives of the granting activity.

## 6. PROBITY AND TRANSPARENCY

Accountability and transparency are related concepts. Accountability involves agencies and decision-makers being able to demonstrate and justify the use of public resources to government, the Parliament and the community. This necessarily involves keeping appropriate records, as discussed above.

Transparency refers to the preparedness of those involved in grants administration to open an activity and its processes to scrutiny. This involves providing reasons for all decisions that are taken and the provision of information to government, the Parliament and the community. Transparency provides assurance that grants administration processes undertaken by agencies are appropriate and that policy and legislative obligations are being met.

Probity relates to ethical behaviour. For those involved in grants administration, creating and maintaining probity involves applying and complying with public sector values and duties such as honesty, integrity, impartiality and accountability.

In the context of grants administration, probity and transparency are achieved by ensuring:

- that decisions relating to granting activity are impartial, appropriately documented and publicly defensible. The relevant requirements are set out in Chapter 3 of these CGGs;
- compliance with the public reporting requirements set out in Chapter 4 of these CGGs; and
- that agency grants administration incorporates appropriate safeguards against fraud and other inappropriate conduct on the part of agency staff and grant recipients.

Agencies should take appropriate steps to manage fraud and unethical behaviour. An appropriate system of checks should be in place to limit the risk of unethical behaviour. This should be part of an agency's management and audit strategy.

- Under section 45 of the FMA Act, an agency Chief Executive must implement a fraud control plan for the agency.
- Under section 46 of the FMA Act, a Chief Executive must establish and maintain an audit committee.

In grants administration, agencies should have particular regard to:

- establishing appropriate internal control mechanisms for granting activity. For example, the separation of duties is a fundamental internal control. No single officer should appraise an application for funding assistance, give financial approval for the expenditure and make the offer to the applicant. Such an arrangement involves an unacceptable risk of collusion and fraud; and



- taking appropriate steps to guard against fraudulent use of grant payments. For example, staff should be aware of the procedures to follow when fraud or misappropriation is suspected.

A conflict of interest arises where a person makes a decision or exercises a power in a way that may be, or may be perceived to be, influenced by either material personal interests (financial or non-financial) or material personal associations. A conflict of interest could arise where decision makers or officials involved in grants administration have a direct or indirect interest in the selection of a particular project or activity for funding. Actual or perceived conflicts of interest can be potentially damaging to government, the agency, and the granting activity.

Agencies should put in place appropriate mechanisms for identifying and managing potential conflicts of interest. Relevant measures may include:

- establishing procedures for staff to declare their interests;
- maintaining a register of staff interests; and
- ensuring that grant guidelines clearly outline what constitutes a conflict of interest. Clear procedures for declaring conflicts of interest and their management should be established.

Agencies should also take particular care to avoid concerns arising about equitable treatment. Grant administrators, whether they are officials or other parties, are vulnerable to complaints of inequitable treatment, political and other forms of patronage or bias.

- The design of a granting activity should ensure that decisions in relation to the approval or refusal of applications for grants are transparent, well documented and consistent with the legislative and policy requirements set out in Chapter 3 of these CGGs.
- A transparent and systematic appraisal process assists in informing decisions and enhances confidence in the selection process and program outcomes for both stakeholders and the public. This can assist officials and the Government in promoting the benefits of a program, and at the same time, demonstrating commitment to public accountability and providing the necessary assurance to the various stakeholders involved that public funds have both been spent for the approved purposes and are achieving the best possible outcomes.
- The ANAO has observed that in its performance audits of grant programs, it has put an emphasis on the geographic distribution of certain grant programs as a measure of equitable distribution and as an indicator of party-political bias in the distribution of grants. The ANAO has emphasised that those involved in grants administration should therefore be aware that the geographic and political distribution of grants may be seen as indicators of the general equity of a program.<sup>38</sup>

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<sup>38</sup> *Administration of Grants: Better Practice Guide* (Australian National Audit Office, May 2002).

- A key consideration in the case of grants programs is whether decision-makers have equitably and transparently selected projects that best represent value for public money in the context of the objectives and outcomes of the granting activity, as set out in program guidelines.

In the case of grant programs, unless specifically agreed otherwise, competitive, merit-based selection processes should be used, based upon clearly defined selection criteria.

There may be instances where it is considered necessary to waive or amend the eligibility and assessment criteria established for a granting activity, in whole or in part. Such instances may include emergencies, urgent or unforeseen circumstances, and exceptional circumstances.

- In the interests of transparency, accountability and equity, grant guidelines should document the circumstances in which the eligibility and assessment criteria set out in grant guidelines may be waived or amended.<sup>39</sup>
- Agencies should seek appropriate authority before invoking provisions for waiving or amending eligibility and assessment criteria. Careful consideration should be given to seeking Ministerial authority in these circumstances, and appropriate records should be kept.
- The ANAO has observed that it is important that appraisal and selection processes be transparent and free from the risk of political or other bias.<sup>40</sup> It is better practice for all like applications to be assessed using a common appraisal process, and where there is a departure from the common approved process, the reasons should be documented. Similarly, grant assessors should document when referring to, or relying on, knowledge or documentation other than the application form.

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<sup>39</sup> Guidelines for new grant programs require ERC consideration and these issues should be addressed in that context.

<sup>40</sup> *Administration of Grants: Better Practice Guide* (Australian National Audit Office, May 2002).

## 7. ACHIEVING VALUE WITH PUBLIC MONEY

Achieving value with public money should be a prime consideration in all aspects of grants administration.

The grants administration function itself should provide value, as should the selection of grant recipients to deliver grant outcomes.

Achieving value in grants administration involves the careful comparison of costs, benefits and options.

Agencies achieve value in grants administration by:

- managing the affairs of an agency in a way that promotes proper use of Commonwealth resources. Proper use means efficient, effective and ethical use that is not inconsistent with Commonwealth policies;
- adopting a risk management approach. Risk management focuses on maximising the value of public money for grant expenditure through minimising adverse impacts by identifying and treating potential risks. In grants administration, it is a mechanism for officials to be able to assure their agency Chief Executive, government and the Parliament that resources are deployed in an efficient, effective and ethical manner; and
- effective appraisal. The objective of the appraisal process is to select projects/activities that best represent value for public money in the context of the objectives and outcomes of the granting activity. A fundamental appraisal criterion is that a grant should add value by achieving something worthwhile that would not occur without grant assistance.

The planning and design phase of grants administration is an appropriate stage to address threshold questions of how best to achieve value with public money. These may include the following points.

- In the absence of a specific decision by government to establish a granting activity, it is important to determine that there is a need for the granting activity. There may be alternative means to realise a desired outcome, such as the use of statutory or other powers. There may also be circumstances where it is more appropriate to support a project/activity in other ways.
- Where government does take a specific decision regarding the establishment of a granting activity, an agency should still consider whether further needs analysis would assist in targeting the areas or projects most in need of funding assistance, consistent with government objectives.
- An agency should ask whether an existing grant program could be expanded or modified to meet an identified need, rather than establishing an additional program. Relevant considerations include the possible duplication of grant guidelines, advertising budgets, selection and assessment procedures, funding agreements, payment and acquittal arrangements, monitoring and assessment procedures.

Unnecessary duplication will generally add to an agency's administrative costs and may increase compliance costs for recipients.

- An agency should consider other sources of funding that may be available. Consideration should be given to the possibility of 'double dipping' by a grant recipient. Double dipping occurs where a grant recipient is able to obtain grant funding for the same project purpose from more than one source.
- An agency should be alert to the possibility of 'cost shifting' to the Commonwealth by another level of government, or 'substitution of effort' by another level of government. Cost shifting occurs where, for example, the Australian Government funds an activity that should be funded by a state, territory or local government. A range of steps can be taken to minimise opportunities for cost shifting and substitution of effort. These include seeking assurances that grant funds will not be used to fund activities that would normally be funded by a state, territory or local government. A further measure is to specify the types of payments or projects excluded from Commonwealth funding.
- Identifying and monitoring the actual administrative costs of a granting activity. The application of insufficient administrative resources to manage a granting activity can increase the risk that the activity's objectives may not be achieved in an efficient, effective and timely manner. On the other hand, the application of too much administrative effort is not an efficient use of funds and could divert expenditure away from the effective achievement of the objectives of the granting activity. Risk assessment can help agencies target scarce resources.

Agency consideration of these issues may reveal less costly or more effective means of achieving the required objective.

Effective risk analysis also helps to avoid the risk of wasting program funds. This can arise, for example:

- Where funding assists unintended beneficiaries. For example, a project may create jobs in the target area but such jobs may not go to local residents.
- Where too much money is awarded to valid projects. This can arise where there has been inadequate financial assessment of the applicant's needs.<sup>41</sup>
- Where the identified need is overcome in other ways, or where projects remain incomplete or have no chance of success.

An effective risk management methodology will identify potential risks and develop strategies for avoiding, minimising or treating them positively for advantage.

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<sup>41</sup> Not all applications will require a detailed financial assessment. Agencies should balance the cost of assessing the applicant's needs with the benefit to be achieved, especially if the value of the proposed grant is small. Agencies should set an appropriate cost threshold above which full financial assessments are carried out. Such thresholds should be consistent between related programs.

## ACRONYMS

AAO	Administrative Arrangements Order
ANAO	Australian National Audit Office
CAC Act	<i>Commonwealth Authorities and Companies Act 1997</i>
CGGs	Commonwealth Grant Guidelines
CEIs	Chief Executive's instructions
CPGs	<i>Commonwealth Procurement Guidelines</i>
FFR Act	<i>Federal Financial Relations Act 2009</i>
Finance	Department of Finance and Deregulation
FMA Act	<i>Financial Management and Accountability Act 1997</i>
FMA Regulations	<i>Financial Management and Accountability Regulations 1997</i>
FOI	Freedom of Information