



Tasmania

DEPARTMENT *of*
TREASURY *and* FINANCE

Best Practice Guide for the Administration of Grants

Third Edition

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Introduction

The purpose of this “best practice” guide is to provide assistance to administrators in the Tasmanian public sector in the design, implementation, monitoring and evaluation of a grant scheme. This guide is not intended as a substitute for agency specific guidelines but is a benchmark for their development. Auditors will be able to use this guide as a benchmark for agency guidelines when conducting performance audits into the administration of grant schemes in the public sector.

This guide applies to all Tasmanian public sector organisations which administer State and/or joint Commonwealth/State funded grants that are not covered by an intergovernmental agreement under the Commonwealth Grants Commission. These agencies are, in the main, inner Budget agencies which operate under the *Financial Management and Audit Act 1990*.

Grants are made in various circumstances by agencies whereby public money is applied to community activities, to achieve aims and objectives consistent with Government policy and agency output objectives. Grants may be covered by legislation or regulation or be subject to Cabinet, ministerial or other discretion. They range in their accountability requirements from highly complex arrangements calling for certificates from the Auditor-General to the relatively informal such as statements signed by a public officer for small grants. Nevertheless, all grant schemes involve the use of public money. Grant scheme administrators and recipients, therefore, are publicly accountable to Parliament to ensure that value for money is achieved from the allocation of the individual grants.

This guide updates and replaces an earlier guide originally published by the Department of Treasury and Finance in June 1996. The earlier guide arose from a detailed study of the administration and accountability of government grant programs undertaken by the Tasmanian Audit Office in 1994. One of the recommendations in the Auditor-General’s Special Report No 6 *Administration and Accountability of Grants* was that the Department of Treasury and Finance be commissioned to develop a “Best Practice Guide” to be used for the administration of all grants in the Tasmanian public sector. In updating the guide in 2003, comments were sought from a number of grant administrators. This current third edition has several minor amendments to reflect changes to the Treasurer’s Instructions as well as including a reference to the *Personal Information Protection Act 2004*.

[Treasurer’s Instructions TI 1011](http://www.treasury.tas.gov.au) and [TI 1012](http://www.treasury.tas.gov.au) impose minimum accountability requirements for grant administration, and are available on the Department of Treasury and Finance’s website at <<www.treasury.tas.gov.au>>. The Treasurer’s Instructions impose minimum accountability requirements in respect of grants made to public bodies and individuals.

Interpretation

The following definitions apply in this Guide:

Aim – A statement of the results and the impact that the grant scheme is designed to secure in the short or longer term.

Appraisal criteria – The main tests applied to a grant application to ensure that it meets the aims and objectives of the grant scheme. Appraisal criteria are also used to compare and rank applications.

Goods – Means and includes tangible, quantifiable material requirements usually capable of being moved or transported that are purchased, rented, leased or hired by the agency. Only goods directly acquired by the agency are included in this definition. Goods acquired by any service contractor are not directly acquired, and are therefore excluded.

Grant – Any payment to a non-government organisation or individual on conditions unilaterally imposed by an agency, but does not include:

- (a) a loan to a non-government organisation or individual, whether repayable or not;
- (b) a payment by an agency to a third party for and on behalf of a non-government organisation or individual;
- (c) the reimbursement of expenses incurred by a non-government organisation or individual for which evidence of expenditure is provided by the non-government organisation or individual in support of the payment; or
- (d) a payment which is in consequence of an agreement between an agency and a non-government organisation or individual for the purchase of goods or services (see Section 2.3.2 Funding and Service Agreements).

Mandatory requirements in respect of the purchase of goods and services are contained in [Treasurer's Instructions 1101 to 1309](#), with further guidance material available on the “Buying for Government” section of the purchasing.tas.gov.au website.

Objective - A working target derived from the aim for the grant scheme, showing what the grant scheme should have achieved and by when.

Output - A service or product.

Performance measure - A measure of results achieved and progress made towards securing grant scheme objective(s). In some cases, quantified performance measures may not be available and less direct performance indicators may have to be used.

Services – Means and includes any task, consultancy, work or advice to be performed or provided that is procured by the agency. Included are services such as management consultancies, outsourcing, maintenance contract/agreement, cleaning, waste removal, equipment repairs, audit services and services relating to building, construction and land development contracts. The definition of services excludes payments made directly to employees, superannuation and pension payments, statutory or involuntary payments, and grants, subsidies and transfer payments.

1 Planning

Good planning is essential for an economic, efficient and effective grant scheme. The fundamental aim is to ensure that the grant scheme is compatible with the achievement of Government policy and agency output objectives. Planning also should ensure internal consistency between the aims, objectives, performance measures and appraisal criteria of the grant scheme.

After identifying what the grant scheme is to achieve, and by when, steps can be taken to design the grant scheme accordingly. On occasions, time pressures or arrangements agreed at policy level may preclude a logical sequence in planning. Officials, however, should counsel their Minister concerning the risks to good administration and value for money when there is inadequate attention to planning in the introduction of a grant scheme. In these circumstances, extra care will then be required to ensure that best practice is followed.

1.1 Setting aims, objectives and performance measures

1.1.1 Has the need for a grant scheme been thoroughly established?

It is important to determine that there is a need for the grant scheme and that the scheme is aligned with the agency's strategic objectives. A grant scheme is rarely the only way to achieve a particular strategic objective.

Before embarking on the design of a grant scheme, consideration of the alternatives may reveal less costly means of achieving the required objective. A thorough appraisal of the cost effectiveness of available options contributes to effective planning.

Always identify and consider the alternatives to a grant scheme. Remember also to appraise these alternatives and the grant scheme against the "do nothing" option.

Evaluate the impact of the grant scheme for possible unintended consequences. For example, a grant scheme aimed at supporting a particular line of research may appear to give Government endorsement to ethical or moral positions which may be opposed by significant sectors of the community. The economic consequences of a grant scheme involving Government intervention should also be clearly understood. Remember also that, because there are usually more applicants than available grants, the decision to allocate some grants implies a decision not to allocate others. Both sides of the equation should be considered.

Grants for certain purposes may be inappropriate for the State Government to undertake, or may more efficiently be handled by local government authorities.

Consider the possibility of "double dipping" by the grant recipients. The proposed recipient of the grant may have applied for, and received, grants from other organisations for a similar purpose. Grant recipients should be asked for full information about grants received from all sources.

1.1.2 Have the long term aims and objectives of the grant scheme been clearly documented and communicated?

Grant schemes should operate under clearly defined and documented operational objectives which set out the principal aims and objectives the grant scheme is designed to achieve and be clearly linked to the relevant Government policy objective(s) and agency output(s). The operational objectives should be approved by Ministers, Board members or senior officials with appropriate authorisation and communicated to the relevant staff through the development of scheme guidelines. Operational objectives should be phrased in such a way that it is clear when they have been achieved, and thus raise the question whether the grant scheme needs to continue. Objectives should be restated at regular intervals (e.g. annually or each time applications are called for) and whenever a change in the grant scheme is made.

1.1.3 Are the expected impacts consistent with the overall aims?

Carefully prepared, well defined operational objectives help ensure that the impact of the grant scheme is consistent with its aims. Good objectives incorporate a timetable for achievement because timing may significantly affect the form of the grant scheme, the level of funding or the likely impact of achieving the set aims and objectives. It is useful also to consider the need for a “sunset clause” for the grant scheme. Often it may be appropriate to set more than one objective for each aim to ensure that all aspects are covered. Avoid conflicting objectives, if possible. If it is not possible, identify the risk of conflict, and determine the desirable priorities.

1.1.4 Have all relevant and meaningful performance measures been set?

The absence of suitable performance measures may adversely affect both accountability and the cost of the grant scheme. It may also affect the desired impact because necessary adjustments cannot be made to the grant scheme. The desired impact could be social, cultural and/or economic. It is important to propose performance measures during planning and not as an afterthought. Difficulty in determining key measures may reflect an underlying uncertainty as to the purpose of the grant scheme, and thus suggest going back to the drawing board. If direct quantified measures are not possible, some form of indicator of achievement of the aims and objectives of the grant scheme should be developed.

Ensure that there are reliable and relevant measures for each operational objective:

- **Input measures.** These show the inputs (financial and physical resources) consumed by the grant scheme, sometimes linked with the relevant direct outputs. They tend to address economy and efficiency issues. For example, input measures could include the size of the budget or the staff resources allocated to administer the grant scheme. Care is required to ensure that measures concentrate on directly relevant activities and not on peripheral ones.
- **Grant scheme output measures.** These show the extent to which the operational targets of the grant scheme have been achieved. Output measures could include the number and quality of facilities built and the value of grants approved.
- **Impact measures** (grant scheme outcome measures). These assess how far the grant scheme is securing its wider aims and objectives. Identifying impact or outcome measures is not always easy but it is a key step in establishing a clear view of the true

benefits of a grant scheme. As an example, this could be signalled by an indicator of increased participation in the relevant activities.

To be genuinely useful, measures need to be:

- generally accepted as relevant and reliable;
- simple and few;
- comparable over time or with other grant schemes. Interpreting measures depends on understanding how they were compiled and ensuring consistency. Comparisons may also be invalidated by changes from period to period in the basis of compilation. Generally, such comparisons form a starting point for further questions rather than providing definitive answers;
- non-distortionary, whereby achievement of the measures does not become an end in itself which diverts resources and management attention from the outcomes being sought;
- tailored to users needs through consultation;
- sufficient but not so detailed that the data swamps the ability of managers to absorb and act on them;
- timely in relation to the decision-making process; and
- economical to produce in relation to the benefits.

Avoid common failings such as:

- assuming that the award of a grant automatically secures the policy objectives;
- using the number of grants as a valid measure of output. This is simply a measure of administrative activity. Even so, the number of grants is hard to interpret because a “grant” is not a standardised unit of work;
- presenting an incomplete time series of results from past and present figures to future forecasts; or
- not relating measures to overall aims and objectives. It is more important to achieve the policy aims and desired outcomes from the grant scheme than to maximise, for example, the number or value of the grants approved.

1.2 Designing the grant scheme for value for money

1.2.1 Have all the administrative and other costs been identified?

All sources of funds, including those provided by other public sector and private sources, should be taken into account. If possible, map the interrelationships with other grant schemes. The aim should be to provide sufficient, but not excessive, funding in the short and longer term.

The main costs of a grant scheme are the grants paid and the cost of administrative support. It may be difficult to assess the likely demand in terms of grants paid, since take-up will depend on the number of potential grant recipients, terms of assistance and the extent of publicity etc. Estimates should be linked to the assumptions or measures on which they are based.

Administrative costs, including the costs of appraisal and monitoring, are generally easier to estimate and control.

Consider also the cost implications of the grant scheme for the grant recipients. For example, grants for capital projects may create subsequent pressure on maintenance and other revenue costs, or conversely the initial investment may produce economies in running costs.

1.2.2 Have administrative responsibilities been agreed?

It is important to clearly define the roles and responsibilities for all parties involved in the administration of the grant scheme. Staff should be adequately trained and basic procedure manuals should be available before processing the first applications. These safeguards are particularly important if grant administration is devolved to regional offices, where competing demands on staff time and scarcity of expertise may lead to variations in the standards of appraisal and administration.

There may be a risk to value for money if insufficient time is allowed to properly set up a grant scheme before it “goes live”. In these circumstances, adopting risk management strategies will allow managers to prioritise key tasks to ensure that important accountability requirements and controls have been adequately addressed.

Arrange specialist support where necessary. For example, appropriate external advice should be considered when appraising applications for capital grants. Grants for commercial or quasi-commercial projects may require specialist business advice.

1.2.3 Have interested parties been consulted to resolve any potential conflicts?

Determine to what extent the operation of your grant scheme may interact with grant schemes run by other bodies. Other bodies can include other State, Commonwealth or local government authorities, private trusts and foundations or national or State coordinating organisations. Avoiding such problems is normally a question of striking the right balance, watching for “flow on” costs and ensuring communication with concerned parties to minimise any adverse effect. Remember that grant schemes can work together to good effect.

Few grant schemes are entirely new. Useful lessons can often be learnt from the experience of other agencies or from non-government organisations in running similar grant schemes. Consider other sources of funding which may be available and their impact on the need for the grant scheme.

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

Care should be taken to ensure that the rules of the grant scheme are clear, easily understood, contain necessary controls and are consistent with the aims and objectives of the scheme and include provision for subsequent evaluation. Prime responsibility rests with management, but there may be benefits in obtaining independent advice, perhaps from auditors or legal advisors.

Criteria for eligibility should be straightforward, easily understood and published. This helps to ensure that operations are not hampered by large numbers of ineligible applicants which can result in a significant administrative overhead.

Special attention should be given to targeting grants to priority groups or areas. But eligibility criteria must remain robust and up to date. For example, if target areas have been defined using old census data, this may well be unreliable for reflecting current trends.

Grants may be paid as:

- **Lump sum grant:** where a grant is paid at a set amount, irrespective of the project's costs. The main attraction is reduced administration costs. Such grants may well involve wasted expenditure, because some applicants may have undertaken their project with a grant payment that was less than the full lump sum paid. The risk can be reduced by providing different levels of lump sum to different types of project, but some excess grant funding may remain. A lump sum grant scheme will probably be most appropriate when grants are relatively small in value;
- **Standard percentage grant:** where a grant is calculated as a standard percentage of the cost of the project. This method has similar benefits to lump sum grants, but using percentages reduces the potential for wasted grant monies. Standard percentage grants should normally be subject to a fixed upper dollar limit; or
- **Flexible or discretionary grant:** where a financial appraisal of the project determines the amount and terms of the grant. Recurring grants may also be paid at regular intervals: monthly, quarterly or half yearly. Payment for the next period may depend on receipt of a report on the previous period. This is normally the preferred method when grants are expected to be individually large, as this method helps to optimise the benefits from grant scheme expenditure. This method is also useful for establishing the base-line for funding.

1.3 Designing the grant scheme for accountability

1.3.1 Does the plan comply with administrative law?

Ensure the grant scheme conforms with departmental and government guidelines and with the Treasurer's Instructions. [Treasurer's Instructions TI 1011](#) and [TI 1012](#) impose minimum accountability requirements for grant administration.

The requirements of administrative law need to be considered early in the planning process. In particular, the design of the grant scheme should reflect the priorities of natural justice, anti-discrimination and Freedom of Information. The needs of target groups may be relevant.

1.3.2 Is there adequate provision for recording reasons for decisions?

It is important that prospective applicants to the grant scheme understand their rights and obligations and have the opportunity to influence the design and delivery of the grant scheme.

The administration of grants lends itself to complaints of political or other forms of patronage or bias. The use of public moneys for such purposes would, of course, be improper. The

design of the grant scheme should ensure that decisions in relation to the approval or refusal of applications for grants are open to public scrutiny. This means that reasons for decisions at all stages of the grant process, including appraisal and approval, must be conscientiously documented. The reasons for decision are part of the audit trail and should make it clear that only relevant factors have been taken into account in making recommendations and decisions. Appraisal forms, therefore, should include sufficient provision for the recording of reasons for recommendations and decisions. They should be maintained as part of the official record and be accessible under Freedom of Information provisions. Reasons should be recorded against the aims/objectives of the grant scheme. It is also useful to prioritise the appraisals, especially if a decision was made on the distribution of available grant moneys.

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

Accountability arrangements should relate to the effectiveness of the grant scheme and address its aims and objectives as well as the process of administering it. The grant provider, the grant recipient and the grant administrators all have roles to play in achieving the aims and objectives of the grant scheme and should be held accountable for the way in which they fulfil their roles. Define the terms in which reports should be made so that it is clear that the grant scheme is fulfilling its policy purposes, as well as producing the necessary outputs.

All those involved in the decision making and administrative process are responsible to account for the inputs to the grant scheme and relate them to agency outputs and Government policy objectives. They are also accountable to ensure that all aspects of due process are complied with.

1.3.4 What reporting mechanisms are proposed?

It is important that the agency reports regularly to Parliament about the grant scheme and its use of public funds. Reports should be in a form that addresses the aims and objectives of the grant scheme. Use of the agency's Annual Report should be considered. Public and internal reporting mechanisms are both part of the audit trail. It is the responsibility of managers to ensure that this accountability requirement is developed in a way that accurately reflects the operations of the grant scheme. The Treasurer's Instructions ([TI 1011](#) and [TI 1012](#)) provide the minimum accountability requirements for reporting.

PLANNING CHECKLIST

- | | |
|---|---|
| <input type="checkbox"/> 1. Are the aims and objectives of the grant scheme properly articulated? | <input type="checkbox"/> 9. Are there special local circumstances or constraints? |
| <input type="checkbox"/> 2. Are the eligibility criteria clear and easily understood? | <input type="checkbox"/> 10. Are there other grant schemes which are likely to conflict? |
| <input type="checkbox"/> 3. Have appropriate input, output and impact performance measures been established? | <input type="checkbox"/> 11. What consultation is necessary and what can be learned from other grant schemes? |
| <input type="checkbox"/> 4. Are performance measures generally accepted, comparable and sufficient for users needs? | <input type="checkbox"/> 12. Do the basic rules avoid waste and fraud? |
| <input type="checkbox"/> 5. Are the performance measures quick and economic to produce? | <input type="checkbox"/> 13. Does the grant scheme comply with Government and agency policies and guidelines, including the Treasurer's Instructions? |
| <input type="checkbox"/> 6. Have total costs been estimated? | <input type="checkbox"/> 14. Who is accountable for what, how and to whom? |
| <input type="checkbox"/> 7. Have administrative and other costs and consequential changes been taken into account? | <input type="checkbox"/> 15. Is adequate access being provided to all interested groups and are adequate procedures in place to enable applicants to be considered on an equitable basis? |
| <input type="checkbox"/> 8. Has sufficient time been allowed to set up the grant scheme? | |

2 Operation

This section deals with operating a grant scheme and covers the central functions of handling applications, appraising them and offering grants to successful applicants. The basic theme of the appraisal process is that grants should provide “added value”, i.e. each grant should help to achieve something worthwhile that would not occur without the grant assistance. In the best grant schemes, operating methods are flexible and responsive to lessons learned from the monitoring of completed projects and the evaluation of results and achievements. A key feature of successful operation is having well trained appraisers familiar with the aims and objectives of the grant scheme.

Getting a grant should not involve surviving an obstacle course. Value for money does not come from avoiding expenditure but from spending money wisely to help those for whom the grant scheme is intended.

2.1 Handling applications

2.1.1 Is everything possible done to encourage and develop initial approaches from prospective applicants?

The first ingredient of a successful grant scheme is a high level of interest from prospective applicants. This means using different kinds of publicity to increase awareness. Encouraging as many potentially eligible applications as possible gives a wide field of possible grant recipients. Available funds can then be targeted to best effect. Promotional material should set out the various forms of assistance available in a clear and attractive way. Remember to list the contact points where applicants can obtain further advice and application forms.

2.1.2 Are there helpful guidance notes and clear application forms?

Ensure that promotional material and application forms are easy to understand and provide all necessary information in a methodical fashion. Well prepared guidance notes and an information “help desk”, website or contact telephone number can help. In some cases, however, the information in the application form may be the starting point for further discussions.

Information supplied with application forms should set out:

- the scheme aims and objectives and measures for indicating that these have been achieved;
- the selection criteria; and
- information about the approval process including:
 - closing date for applications and likely decision dates;
 - an outline of the selection process;
 - the appointments of the people who make final recommendations and approvals;
 - a description of appeal and/or Freedom of Information mechanisms; and
 - the accountability measures and processes for the outcomes of the grant scheme.

It is essential that the collection, use and disclosure of any personal information relating to the grant application and assessment process conforms with the requirements of the *Personal Information Protection Act 2004*, as this Act applies to all personal information collected and held by agencies.

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

- **organisational credentials:**
 - including name;
 - address;
 - membership structure;
 - aims and objectives of the organisation;
 - names of contact persons;
 - details of legal status of the applicant (incorporated organisation or co-operative) and (if necessary) any subsidiaries or controlling organisations;
 - activities proposed; and
 - evidence of management ability to undertake the proposed project.

- **project/service details:**
 - including purpose;
 - identified demand and target groups for the project;
 - rationale for the project;
 - relationship to Government objectives;
 - activities proposed;
 - expected benefits;
 - impacts and effects of the proposed activities;
 - proposed performance measures;
 - proposed process of evaluation;
 - consultation arrangements;
 - timetable of the proposed activities; and
 - ability to sustain the expected benefits beyond initial funding period.

- **project/service financial details:**
 - including funding sought from the Government;
 - other sources of funding (supported by evidence);
 - budget;
 - proposed annual expenditure statement;
 - management plan for the project
 - duration; and
 - nature of the funding required.

2.2 Appraising applications

2.2.1 Do appraisal procedures target the available resources to priority areas?

The first step is to assess whether the applicant's proposal is consistent with the overall objectives of the grant scheme and satisfy the selection criteria. This preliminary assessment will help to avoid spending time considering applications which are clearly not eligible for assistance.

Appraisal processes need to take into account the proposed approval schedule. Appraisal should be timely to avoid waste and inequities which may arise through unnecessary delay. For example, if all applications are considered at the one time, appraisals can more effectively consider the relative merits of competing proposals.

It is often a good idea to appraise applications in batches, rather than on a "first come, first served" basis. Comparisons can then be made between applications, helping to avoid the risk of running out of available funds before more deserving bids can be considered. However, in practice this system requires a good standard of management information to assess accurately the likely demand for assistance.

On the other hand, if proposals are approved periodically, particular care needs to be taken to ensure consistency of treatment. In this case, areas of special need, or specific types of project, should be identified and budgets set up to earmark sufficient funds for preferred classes of applications. Such preferences should be periodically reviewed to ensure that preset priorities remain valid.

Good targeting of assistance and careful appraisal help to avoid the risk of wasting grant money which arises where:

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

2.2.2 Do appraisals consider whether projects could proceed without a grant?

As a general principle, grant appraisers must be satisfied that projects would not proceed, or not in the manner or to the time scale intended, without financial assistance. Otherwise, any grant paid simply releases the applicant's funds for other purposes, which may be irrelevant to

the objectives of the grant scheme. Grants paid in such circumstances provide no added value.

When considering added value:

- ensure that project planning assumptions are realistic (analyse income and expenditure assumptions, examine the implications of changes in the various assumptions associated with a project etc); and
- consider carefully what would happen if a grant was not awarded.

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

If the ratio of other funding to grant funding (leverage) is high, this is a strong indication that the project might well proceed without grant assistance. What constitutes a high leverage ratio may vary from grant scheme to grant scheme. An acceptable ‘trigger’ ratio should, where possible, be established at the outset of the appraisal process as a basis for identifying applications requiring further investigation.

Reports to management should state the range as well as the average leverage ratio achieved. Remember that some projects may attract finance from a number of public sources. Leverage calculations are most meaningful when they consider the ratio of private funds to total public funds, not just those coming from a particular grant scheme.

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

2.2.3 Do appraisals consider whether projects could proceed with partial funding?

Usually there will not be sufficient funding to fully fund all organisations that meet the selection criteria. Partial funding may be considered. It will then be necessary to determine whether the organisation’s service will still be feasible if only partial funding is provided. This may involve offering a lower amount of funding to an organisation and requesting it to reconsider its ability to provide the service. The proposed use of a funding schedule may also need to be revisited to ensure that it is accurate for monitoring and reporting purposes.

2.2.4 Do appraisal procedures ensure that successful applications meet the stated objectives of the grant scheme?

Consistent scrutiny will be helped by the use of appraisal checklists and standard grant appraisal forms. Checklists should be designed to cover all main objectives of the grant scheme and list the essential points in the appraisal process.

Use appraisal forms as working documents. Do not complete them only at the end of the appraisal simply to record the decision to offer a grant. The form could also record the objectives, and outputs (direct and indirect) expected from the project.

Generally, it is good practice when dealing with large, complex applications to supplement the full appraisal report with a short secondary appraisal by another, not necessarily senior, officer. This could concentrate on any sensitive assumptions but also review the completeness and validity of the full appraisal.

2.2.5 Is there scope for alternative forms of support?

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

Loans could, for example, be considered when a relatively costly project is expected to generate significant new income. If profitability is expected within a short time, there is a case for loan assistance rather than a grant. A “pump priming” loan may be all that is needed to get the project off the ground. In certain circumstances, loans on favourable terms may be appropriate. If there are commercial uncertainties, repayments can be scheduled according to actual profitability.

Finally, do not assume that all the applicant needs is money. Grant providers can contribute valuable specialist advice and experience as well as hard cash. An inexperienced applicant with a viable project may just need to be told how the project can succeed without grant assistance. In some cases, a successful project may even be able to repay at least some of the cost of the advice provided.

2.3 Approving and making offers and formal agreements

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

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

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

- the appraisal is complete; and
- any recommendations for assistance have been fully justified and documented. Where approvals do not accord with recommendations, the reasons for approval must be documented.

The agency should lay down levels of financial delegation for each approving officer to allow them to make offers of grant without reference to senior officers. Such delegation should reflect the ability of the officer to work largely unsupervised, and can be linked to experience, qualifications and/or the satisfactory completion of training courses. Delegation limits should be reviewed periodically. There should be fall back procedures for referring any unusual cases to senior management.

The approving officer may not have the in-depth knowledge or technical expertise of the appraiser, and would not normally be expected to second guess professional judgements. The approving officer should use his/her own knowledge and experience to consider whether the grant is in line with the purpose of the grant scheme, that costs and other aspects appear reasonable and that sufficient funds are available.

In some cases, a register of officers' interests will help to protect appraisers or approving officers from accusations of bias or conflict of interest.

2.3.2 Funding and Service Agreements

An essential component of effective grant administration is a well-drafted document providing evidence of the grant. It provides for:

- accountability for, and protection of, public money;
- legal protection of the recipient and the agency;
- agreed terms and conditions of the funding assistance, including performance information and access requirements and clearly defined roles and responsibilities of all parties;
- dispute resolution arrangements; and
- clear understanding between the parties on required outcomes prior to commencement of funding.

A fundamental requirement of effective grant administration is the ability of the agency to protect its interest in ensuring that public money is used for the intended purpose. An appropriate document is required which takes account of the legal difference between a grant and a contract and enables the enforcement of the relevant grant conditions.

A grant is a payment of money on conditions unilaterally imposed by the agency. A contract is an agreement negotiated by both parties. If the conditions of a grant are breached, the only consequence may be that the grant money may be repayable or withheld. If a contract is breached, a much wider range of potential remedies is available, including damages to compensate for loss, or requiring contract obligations to be performed. This difference means that agencies should consider whether they wish to make payment by way of a grant (that is a gift subject to terms and conditions) or by way of a contract. When designing the grant scheme, legal advice should be sought from Crown Law on how best to protect the interests of the agency and the Crown.

As grant giving falls outside the scope of standard legal arrangements, the onus is on the agency to protect its own interests and those of the public. Offers of grant should therefore be accompanied by standard conditions which establish the rights of the agency to monitor both the use made of the grant and the effectiveness of the assisted project. Standard conditions for

inclusion in funding and service agreements can be obtained from Crown Law. Where appropriate, consider, in conjunction with Crown Law, whether any special conditions need to be attached to the agreement. A funding and service agreement can range from a simple agreement for a small lump sum grant to a more complex agreement for a recurring or very large grant.

The Treasurer's Instructions ([TI 1011](#) and [TI 1012](#)) set out minimum requirements for the grant recipient to submit audited statements of receipts and expenditure at least annually.

Funding and service agreements should outline:

- the circumstances for reclaiming the grant;
- the basis of the calculation;
- the period over which the grant applies;
- the obligation on the grant recipient to notify any significant changes in the assisted project promptly to the grant provider;
- whether interim payments on account are to be made and the terms of such payments;
- clear deadlines for the submission of a certified final claim; and
- the penalties imposed for non-submission.

Applicants should normally also be required to submit a project completion report, and to provide additional information if called for by the agency.

The funding and service agreement should drive the enforcement of reporting and accountability requirements. As a minimum, the terms and conditions of the agreement should reflect the criteria and terms and conditions advertised at the time applications were called for. The terms of the agreement should facilitate monitoring and evaluation of the project against approved performance criteria.

Grants related to land or buildings can in some circumstances be protected through a legal charge on the property in question. Even if watertight conditions cannot be imposed, there may be value in obtaining formal assurances from applicants. These may extend to a wide range of related matters, with the aim of protecting the objectives of the original grant.

If grants are given for projects with a finite life, consideration needs to be given to what happens at the conclusion of the project. For example, if property or equipment which was purchased with grant money is to be disposed, does the agency have any rights to the proceeds of the sale. Consider also the extent to which patents or copyrights that arise from the grant should be vested in the Crown.

APPRAISAL CHECKLIST

1. What has been done to encourage applications from prospective applicants?

7. Have alternative forms of support been considered?

2. Do application forms and guidance notes help applicants to submit valid applications?

8. Is there a clear separation of duties between those responsible for appraising the applications and those approving them?

3. Is the application consistent with the overall aims and objectives of the grant scheme?

9. Are unusual cases referred to senior management?

4. Will a grant make a quantifiable contribution to securing these aims and objectives?

10. Is there an adequate audit trail outlining all relevant reasons for decision?

5. Has there been a proper financial appraisal, with specialist advice obtained where necessary?

11. Has a funding and service agreement been agreed, in consultation with Crown Law, and signed?

6. Are the merits of competing applications weighed against available funds?

3 Monitoring Individual Grants

Monitoring grant schemes should be positive and purposeful, with immediate and tangible benefits. It must not be a bureaucratic burden. Effective monitoring is an essential element of any successful grant scheme. At one level, it provides assurance that all conditions attached to grants have been met, while at another it indicates how worthwhile individual grants have been and provides a basis for refining the grant scheme. Directly or indirectly, agencies remain publicly accountable to Parliament for the value for money achieved from their grants even after they have been paid, so it is essential that adequate monitoring resources are made available.

The extent and frequency of monitoring will vary according to the size of the grant, the associated risks or the sensitivity of the assistance. If small amounts only are involved, and no special circumstances exist, monitoring individual cases is unlikely to be cost effective; it may then be preferable to monitor the grant scheme as a whole (see Chapter 4 Grant Scheme Evaluation).

3.1 Setting up monitoring arrangements

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

Responsibility for monitoring individual cases should be allocated to specific staff. Monitoring staff need a good working knowledge of the activity being undertaken, assisted by adequate clerical support to process routine monitoring data. It may be useful if monitoring staff have some responsibility for appraising projects (not necessarily for the same cases, although there would be operational advantages for the larger more complex cases).

3.1.2 Are there arrangements to ensure the consistency, quality and frequency of monitoring information?

Monitoring is often best decentralised to local offices. However, there are risks that a monitoring system may not be implemented consistently, so:

- set standards for frequency, consistency and quality of monitoring and ensure that these are met at all locations; and
- review the scope and completeness of the monitoring actually carried out and watch for any backlog of unmonitored cases.

Monitoring should be included as a condition of the grant, using the funding and service agreement to inform grant recipients of the monitoring requirements. Monitoring should generally begin soon after the grant is given. Some grants may need time to take effect and, in these cases, the extent of initial monitoring can be limited.

Monitoring grants to voluntary bodies can cause particular difficulties. They may often have limited resources and the reports or supporting documentation that they present may be below standard. There is no simple solution to this problem, but it helps to be explicit about the monitoring requirements in the grant offer, and to establish the monitoring routine from the outset.

3.2 Monitoring funding

3.2.1 Is there sufficient, relevant and reliable evidence of costs incurred by the grant recipient to minimise the potential for fraud?

Some grant schemes fund ongoing programs of work over several years. For such grants, monitoring the costs and physical progress of the project will accompany the monitoring of project results.

There are several steps which can be taken to guard against fraudulent misuse of grant payments. Other than in exceptional cases, such as very small grants to voluntary bodies, independently certified evidence of costs, by an auditor or Board member, should be obtained before payment of the grant. This will also help to avoid paying grants before they are required. Other than for low value grants, visit the project and/or hold a progress meeting with the grant recipient before settlement of the final claim, to ensure that the grant has been spent as intended.

Examine a copy of the grant recipient's most recent annual audited accounts. Consult the Treasurer's Instructions ([TI 1011](#) and [TI 1012](#)) for required action if there is a qualified audit report. An assessment of the utilisation of funding in accordance with the funding and service agreement should be completed.

Payments should only be made to the grant organisation applying for the grant, not to an individual. The final payment should normally be accompanied by a project completion form.

Ensure that agency staff are aware of the procedures to follow when fraud or misappropriation is suspected.

3.3 Monitoring results

3.3.1 Has a monitoring strategy been implemented?

Although a monitoring strategy will have been considered in outline at the grant scheme planning stage, keep the strategy under review to ensure that adequate resources are made available to deal with the size, perceived risk and sensitivity of the grants awarded.

The point at which monitoring can begin depends on the type of grant. Generally, capital grants can be monitored soon after payment, but other types of assistance may require more time to ascertain their continuing impact.

Monitoring should not be a one-off event. Grants should be reviewed periodically, taking into account the:

- size of the grant;
- associated risks;
- sensitivity of the grant;
- degree of uncertainty or subjective judgement in the original appraisal;

- type of grant; and
- type of project (is it innovative or open to unintended changes of use or ownership).

Useful techniques to help make monitoring more efficient include:

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

3.3.2 Does monitoring address the aims and objectives of the program?

It may also be useful to include as a condition of the grant that the recipient is responsible for evaluating the project. For grants spanning several years, continuing funding could be made dependent upon the grant recipient demonstrating adequate progress and/or results. As a minimum, grant recipients should be required to maintain performance information relating to the achievement of aims and objectives of the grant scheme.

3.3.3 Does monitoring address the main criteria covered in the appraisal process?

Information collected and used for monitoring must address the main objectives of the grant scheme. This can be assisted by the structured design of appraisal forms/checklists and monitoring returns.

Data required for monitoring should be set out clearly and in a form that facilitates periodic reporting to local and central office management. All monitoring reports and forms should be structured in such a way that ensures data is quantified and is as consistent as possible, and allows comparisons over time and against any preset standards.

3.3.4 Are budgetary targets monitored regularly?

The cash flow information provided with original applications can be imprecise, particularly where voluntary organisations are involved. As a result, the project can fail to spend its grant in a particular financial year. Monitoring of cash flows and progress payments against budgetary targets of the grant scheme is important if public money, which has been committed, is not to remain unused for long periods.

3.3.5 Are databases structured to give relevant information?

Special attention needs to be given to structuring databases to make sure that information that is collected routinely can be analysed in a way that makes it easy to identify ineffective, inefficient or fraudulent use of grants.

3.4 Responding to monitoring

3.4.1 Are lessons learned from monitoring fed back into the appraisal process?

There are benefits in arranging for grant appraisers to be involved in monitoring, especially in relation to the qualitative aspects of project performance. In this way, appraisers will benefit from seeing the results and outcome of projects. Lessons learned can then be fed back through changes in future appraisal practices or other procedures.

3.4.2 Are arrangements made to consider recovery of grant moneys when the recipient has not complied with grant conditions?

Any regular need to recover grants is a warning sign that a grant scheme may not be achieving its objectives, or that scrutiny of applications may need to be tightened up. Periodically, the agency should monitor levels of recovery and analyse causes. As far as possible, grant schemes should be designed to provide for the grant to be reclaimable in proportion to the degree to which benefits have been lost through broken conditions.

Reclaiming grants, in whole or in part, may be appropriate in a number of circumstances. For example, recovery of grants given to fund the expected deficits on commercial projects may need to be pursued if unexpected major windfall gains occur that could not have been predicted during the appraisal and approval process. Recovery may, however, depend on the time lag since the original grant was given.

In larger cases, one means of reclaiming grant moneys from a subsequent unauthorised sale or development of grant aided property is to register a legal interest or even a legal charge on the relevant deeds.

MONITORING CHECKLIST

- | | | | |
|--------------------------|---|--------------------------|---|
| <input type="checkbox"/> | 1. Does the monitoring officer have access to all relevant information and expertise? | <input type="checkbox"/> | 6. Are databases structured to give all the relevant information? |
| <input type="checkbox"/> | 2. Is there a monitoring strategy? Has it been put into effect? | <input type="checkbox"/> | 7. Does monitoring cover the effectiveness of grants as well as conformity with grant conditions? |
| <input type="checkbox"/> | 3. Did monitoring start in good time? | <input type="checkbox"/> | 8. Have grant conditions been broken and, if so, what steps need to be taken? |
| <input type="checkbox"/> | 4. Is the required monitoring process consistent with the objectives and performance measures set for the grant scheme? | <input type="checkbox"/> | 9. Are any changes needed in the scope and frequency of future monitoring? |
| <input type="checkbox"/> | 5. Are budgetary targets monitored regularly? | <input type="checkbox"/> | 10. Are there lessons which should be passed on to other monitoring officers or fed back to grant appraisers? |

4 Grant Scheme Review or Evaluation

The grant scheme should be reviewed periodically against the predetermined aims and objectives. This review can also consider whether these objectives remain relevant in the light of overall Government policy. The emphasis of this Section is on reviewing achievements in implementing policies.

There is a direct link between planning and review and, as far as possible, they should be considered together. The review must take into account any unforeseen impacts - favourable and adverse - on the economy, efficiency and effectiveness of the scheme.

It is good practice to:

- prepare annual evaluation plans in respect of all grant schemes;
- evaluate grant schemes regularly; and
- integrate evaluation into normal grant management.

4.1 Managing the review/evaluation process

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

How frequently grant schemes should be reviewed will, to some extent, depend on the length of time over which grants are to be paid. It is good practice to set up an evaluation program which ensures that all grant schemes are evaluated over, say, a three to five year cycle. Priority should be given to larger and more complex grant schemes. For smaller and less expensive grant schemes, a limited evaluation may be preferable to complete exclusion from the evaluation cycle. If a grant scheme is worth running, it is worth reviewing, and smaller grant schemes may have received less regular case monitoring. There are benefits in reviewing jointly any grant schemes which share the same aims and objectives, so as to highlight possible duplications or conflicts, and to improve complementary working.

4.1.2 Is sufficient appraisal and monitoring information collected to support an evaluation of the operation and achievements of the grant scheme?

The objectives, criteria and information needs for a formal evaluation of the grant scheme should be clearly established at the outset. The original planning for the grant scheme should take account of the need to evaluate the effectiveness, efficiency and economy of the grant scheme.

The first requirement is to ensure that there is an adequate population of mature grant aided projects to give a representative view of the impact of the grant scheme. This should take account of the aim of the review. The demands of a full effectiveness evaluation may be more demanding than a review of efficiency or an early review designed to ensure that the grant scheme is well set up.

Key data will also need to be identified at an early stage. From time to time, it may be useful to check out the views, attitude and behaviour of unsuccessful applicants and non-applicants. Careful review of data from the initial appraisal stages will often provide useful lessons on

how the grant scheme could be modified to encourage high quality applications, to improve take-up and impact or to improve publicity.

4.1.3 Are grant scheme evaluations performed by staff independent of the immediate line management of the grant scheme?

Although it is efficient to involve the grant scheme's managers in an evaluation, it may not be reasonable to expect them to produce a critical, detached review of the results of their own work. An independent view may be required. This may be achieved by peer review by other staff within the organisation, or by involving internal audit. Another option is to appoint independent consultants with a record of relevant experience. The objectives of and criteria for the evaluation should be clearly established before the review starts. Whatever option is chosen, management should be involved although sole carriage of the review or evaluation by management is not essential.

4.2 Carrying out a review or evaluation

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

One of the main reasons for reviewing a grant scheme is to see whether there is a continuing need. Priorities can alter and needs change over time. If grants are to continue, useful lessons can be learned by assessing how far a grant scheme has achieved its aims and objectives, what has gone wrong, why, and what changes and improvements should be made.

4.2.2 Is the grant scheme achieving the intended results?

Evidence of the effectiveness of the grant scheme in achieving its intended results will come mainly from the performance measures set at the planning stage. Other effectiveness aspects also to be considered during the review include:

- That the grant scheme has provided added value.

Establishing how far a grant scheme yields benefits above those that would have occurred without the scheme is often the most complex and judgmental part of any evaluation. Statistical techniques can sometimes help. For example, time series analysis or correlation can reveal links between the outlay of grant moneys and changes in the situation that the grant scheme is designed to tackle. Simply analysing trends is rarely a substitute for detailed evaluation of the results of individual grants. The best approach is usually to examine a carefully structured sample of completed projects to establish:

- whether the project would have gone ahead on the same scale and at the same time, without a grant;
- whether the expectations underlying the justification for the decisions have been realised; or
- whether the benefits from the assisted project will be sustained for the foreseeable future, or whether further assistance may be required.

- The extent to which the benefits obtained are offset by costs incurred elsewhere (displacement).

The extent to which benefits achieved in one area lead to losses in another can be quite severe. For example, a sports facility provided through grants in one locality may have the effect of attracting people from other facilities elsewhere, rather than adding to the total participation in sporting activities. Consider whether grants have helped to expand activity (rather than simply transfer it) or increase productivity. On the other hand, the objective of a grant scheme may not be to expand an activity but to rationalise or relocate it. In such cases, higher level of displacement may be acceptable.

- The extent to which the benefits of the grant scheme replace other benefits (substitution).

Substitution is sometimes confused with displacement, but it measures the extent to which grant aided benefits are in substitution for benefits which would otherwise have occurred. An example of substitution in the job creation field would be where a grant scheme creates employment for certain people at the expense of others who might have been employed in the absence of the grant scheme.

- The quality of the benefits being provided.

Assessing the quality of benefits provided by a grant scheme is often difficult but it provides valuable information in a variety of ways. For example, the quality of buildings erected or renovated with capital grants may provide benefits by minimising future maintenance or heating costs. On a wider front, the “quality” of jobs achieved in a job creation grant scheme will affect the sustainability of employment, the benefits to the economy and job satisfaction.

4.2.3 Can you get the same results more cheaply?

Economy is not an end in itself and should not be pursued without regard to the level and quality of output. Minimising the cost of resources used in a grant scheme should nevertheless be a continuing concern.

In assessing the potential cost of continuing a grant scheme, consider the opportunities for reducing both direct grant expenditure and administrative costs. The administrative costs of a grant scheme can be varied by:

- changing the basis of payment (by making payment in arrears rather than by funding in advance);
- by lump sum payment rather than staged payments;
- by paying standard percentages of costs rather than on individual assessment; and
- by different levels of scrutiny.

Subject to adequate levels of control, lower administrative costs, either for the agency or the grant recipient, can be of benefit to the recipient by making more money available for direct use for the purposes of the grant. The costs of administration should be reviewed in terms of cost per application or cost per grant.

4.2.4 Can you get more for the same outlay?

Efficiency can be defined as the ratio of outputs to inputs, where outputs and inputs can be variable. In simple value for money terms, efficiency means getting more for the same cost, or cutting costs without reducing output. In any evaluation of efficiency, include, where relevant, costs and other inputs falling on other parties. Any review of efficiency should extend to administration costs and other overheads. For example:

- the average time taken to handle an application;
- the number and speed of response to initial inquiries per officer; or
- the number of grants approved per officer.

4.2.5 How should reviews be reported?

Reviews and evaluations of grant schemes should, in the first instance, be reported to the area of the agency responsible for the management of the grant scheme. It is good practice to report evaluations publicly to enhance accountability of the scheme and to extend the benefits of improvements from agency to agency. Results of reviews and evaluations should be fed back to those responsible for the management and design of the grant scheme so that recommended improvements in the grant scheme can be realised.

REVIEW/EVALUATION CHECKLIST

1. Are there enough completed and ongoing projects to support an evaluation?

7. Have the views of grant recipients and other interested parties been sought?

2. Is there important information to be analysed on unsuccessful applicants or non-applicants?

8. What have been the flow-on effects of the grant scheme?

3. Are the objectives of the evaluation clearly stated?

9. Have grants been the most effective way of achieving the desired outcome?

4. Is the evaluation team sufficiently independent from the grant scheme, its beneficiaries or senior management?

10. Have administrative costs been carefully reviewed?

5. Have the added value and the displacement and substitution effects been considered?

11. What is the effect of varying inputs and/or outputs?

6. Is the required quality being achieved?

Conclusion

The purpose of this Guide is to provide sufficient explanation of best practice in grants administration so that agencies can develop their own guidelines for grant schemes. Agency guidelines will vary from very comprehensive to simple, according to the complexity of grant schemes. However, the principles for all guidelines remain the same and are illustrated in each of the Sections on Planning, Operation, Monitoring and Evaluation. Use of the checklists found at the end of each Section will assist the grant administrator in making sure that nothing is left out when developing grant scheme guidelines.

The critical factor to remember when administering grant schemes is that they are funded with public money and that the Minister and Head of Agency are publicly accountable to Parliament for the value for money achieved from the allocation of individual grants.

Remember that procedures for decision making in agencies are open to public scrutiny. Therefore, proper and complete documentation about grants schemes must be carefully retained.

Grant administrators are encouraged to provide comments or feedback on this Guide to the Procurement and Contract Management Unit of the Procurement and Property Branch, Department of Treasury and Finance, GPO Box 147, Hobart, Tasmania 7001 or by email to tenders@treasury.tas.gov.au.