Tasmanian Forest Industry Development and Assistance Programs

Introduction

During the 1980s, there was considerable debate, both within Australia and internationally, about global and domestic environmental issues, including the use and management of forests. This global debate on environmental issues culminated in the United Nations Conference on the Environment and Development being held in Rio de Janeiro in June 1992. At this conference, Australia endorsed a number of agreements including a set of Forest Principles for the management, conservation and sustainable development of forests.[1]

Subsequent to agreeing to these principles, the Commonwealth, State and Territory governments developed the *1992 National Forestry Policy Statement* (NFPS). Regional Forest Agreements (RFAs) are a key element of the NFPS approach.[2] The Agreements are 20-year plans for the conservation and sustainable management of Australia's native forests and seek to balance the full range of environmental, social, economic and heritage values that forests can provide for current and future generations.[3]

Tasmanian forest industry

Tasmania became a signatory to the NFPS on 12 April 1995 and signed an RFA in November 1997. This RFA increased the existing Tasmanian forest conservation reserve system by 17 per cent, bringing the total reserve system to 2.7 million hectares or 40 per cent of Tasmania's total land area.

In the lead up to the 2004 election, the Liberal Party and National Party coalition announced its policy, A Sustainable Future for Tasmania. This policy outlined the intention to preserve further high conservation forests from logging, coupled with investment assistance to ensure the continued viability of forest and forest related industries. With the Coalition's re election to government in 2004, this policy was implemented through the Tasmanian Community Forest Agreement (TCFA).

Tasmanian Community Forest Agreement

Following extensive negotiations between the Australian and Tasmanian Governments, the TCFA was signed by the former Prime Minister and Premier of Tasmania on 13 May 2005. The TCFA was negotiated as a Supplementary Agreement to the Tasmanian RFA. The Agreement is a joint commitment by the two governments of more than $250 million to assist the timber industry and to preserve old-growth forests. The TCFA included the following three programs aimed at providing assistance to specific sections of Tasmania's forest industry:

- Tasmanian Forest Industry Development Program (TFIDP) ($42 million over three years) to assist the Tasmanian hardwood industry to upgrade, add value to forest resources and to improve the efficiency and competitiveness of the industry;
- Tasmanian Country Sawmills Assistance Program (TCSAP) ($4 million over three years) to introduce new technologies, products and markets to increase the use of smaller re-growth and plantation logs; and
- Tasmanian Softwood Industry Development Program (TSIDP) ($10 million over three years) to assist the Tasmanian softwood industry to retool existing mills and to improve the efficiency and competitiveness of the industry.

Administering the programs

The objectives, funding and administrative arrangements for implementing the TFIDP and TCSAP were outlined in a Memorandum of Understanding (MoU) between the two governments. These arrangements included establishing an Advisory Committee[4] that was responsible for assessing applications and making recommendations to both the Australian and Tasmanian Government Ministers on the allocation of funds. The Committee was supported by an independent assessor and a DAFF secretariat. Similar arrangements applied for the TSIDP and these were outlined in an exchange of letters between the two Ministers.

The three programs are funded by the Australian Government but jointly managed by the Australian and Tasmanian Governments through the Tasmanian Department of Economic Development (DED) and Australian Department of Agriculture, Fisheries and Forestry (DAFF). The guidelines for the programs were developed in conjunction with the Tasmanian Government and approved by the then Australian Government Minister for Fisheries, Forestry and Conservation and the then Tasmanian Government Minister for Infrastructure, Energy and Resources. The Ministers also jointly approved the funding of grants under these programs.

Applying for funding

Potential applicants were invited to submit an application or expression of interest for funding in October 2005 and again in April 2006.[5] Lodging an expression of interest allowed a potential applicant to submit an application at a later date. Applications were also accepted on an ongoing basis until the formal application closing date of 30 June 2007. DAFF undertook a preliminary assessment of the applications against the eligibility criteria outlined in the guidelines. Applications were then referred to the Advisory Committee for further assessment, including against the program objectives and funding priorities also outlined in the guidelines. Applications recommended for funding were forwarded to the Ministers for their joint approval.

The guidelines for the programs stated that, as a general rule, eligible projects would be offered a minimum grant of 25 per cent of the total project costs, with grants of up to 50 per cent being considered for projects, which made a significant contribution to the priorities for funding. Generally, TSIDP and TFIDP applications were funded at the 25 per cent level and most TCSAP applications at the 50 per cent level.

Grants approved by the Ministers

As of 30 November 2007, a total of 184 applications had been received across the three programs, with 56 applications still in progress. Of the remaining applications, 88 have been approved by the Ministers and 40 applications were either withdrawn, ineligible, rejected or transferred.[6] The total value of approved grants was $42.9 million. Individual grants ranged from $5 000 to $7.9 million, with payments being made on a reimbursement basis. The projects funded under the programs included: upgrading harvesting equipment; re-equipping sawmills to better handle smaller re-growth and plantation logs; installing kilns and other equipment; and purchasing equipment to introduce new technology into paper or veneer mills.

Additional funding for grant recipients

On 16 October 2007, the then Minister for Fisheries, Forestry and Conservation wrote to successful applicants advising that all grants awarded under the programs would be increased by 30 per cent to assist applicants in offsetting the income tax liability of the original grant. The additional payments (of $16.8 million) were agreed by the former Prime Minister on 6 October 2007, subject to costs being agreed to by the then Minister for Finance and Administration.[7] DAFF advised that, as at 30 November, no payments in relation to this funding increase had been made as administrative arrangements were still being developed. DAFF subsequently advised the ANAO on 7 February 2008, that the incoming Government had reviewed spending commitments made by the former Government, which had not been legislated. An outcome of that review was a decision by the Government in February 2008 to increase the grant provided to successful applicants in the TCFA industry development programs by 30 per cent. Implementation of that decision is underway.

1 Other agreements endorsed include the Framework Convention on Climate Change and the Convention on Biological Diversity.

2 Ten Regional Forest Agreements have been signed across four States: Western Australia; Victoria; New South Wales; and Tasmania.

3 For further information on the NFPS and RFAs see www.daff.gov.au/rfa [accessed 1 August 2007].

4 The Advisory Committee included officials from both the Australian and Tasmanian Governments and industry experts.

5 The closing date for applications or expressions of interest for the TFIDP and TCSAP was November 2005 and, for TSIDP applications, 20 January 2006. The closing date for all programs following the April advertisement was May 2006.

6 For these applications, 18 were withdrawn by the applicant for business reasons, 12 were transferred to another TCFA program, six were deemed ineligible and four were rejected by the Advisory Committee due to the applicants' poor financial status.

7 This brings the total funding for the programs to $72.8 million.

Audit scope and objective

The objective of the audit was to assess DAFF's implementation and administration of the three forest industry assistance programs under the TCFA. Particular emphasis was given to the:

- implementation of the programs and ongoing governance arrangements;
- promotion of the program and the development of program guidelines;
- assessment of applications and approval of funding; and
- management of funding agreements.

The other components of the TCFA were not included in the scope of this audit.

Overall audit conclusion

The TCFA is intended to preserve Tasmanian old growth forests as well as provide practical assistance to help the industry modernise and adjust to changing timber resources following the conservation of almost 140 000 additional hectares of native forest. The grants provided by the three forest industry assistance programs are being used to adjust to the processing of smaller diameter logs, to improve the safety and efficiency of harvesting operations, add value to Tasmanian timbers, and protect jobs.

Of the 98 applications[8] that had been finalised under the programs as at 30 November 2007, 88 applications (90 per cent) had been approved, six applications were assessed as ineligible and four were rejected due to the financial status of the applicants. To date, the Ministers have approved all applications recommended by the Advisory Committee. The total value of approved grants was $42.9 million, with individual grants ranging from $5 000 to $7.9 million. In addition, the previous Government agreed to increase all grants awarded under the programs by 30 per cent to assist applicants in offsetting the income tax liability of the original grant. However, as at 30 November 2007, no payments in relation to this funding increase had been made. DAFF subsequently advised the ANAO that the incoming Government had decided in February 2008 to increase the grant provided to successful applicants in the TCFA industry development programs by 30 per cent.

DAFF, in conjunction with the Tasmanian Government, developed program guidelines and a sound framework for assessing and approving applications for the three programs. This framework was outlined in the MoU (and exchange of letters) between the Australian and Tasmanian governments. DAFF also has processes and procedures for assessing grant applications and these are outlined in the department's Chief Executive Instructions and Better Practice Guides.

However, in practice, not all processes and procedures were followed by the department when assessing and recommending applications to the Ministers for funding. There were no operating procedures developed for administering the programs, as required by the department's *Chief Executive Instruction on Grant Management*, including setting out the method and scale of rating applications.

The Advisory Committee, established to assess applications and to make recommendations to the responsible Australian and Tasmanian Government Ministers, was engaged for its knowledge of the forest industry and with the expectation that this expertise would add value to the assessment process. The Committee was also supported in its assessment of applications by the DAFF secretariat and an independent assessor. However, the lack of documentation supporting the Committee's assessment of applications and the reasons justifying the Committee's decisions means that the assessment process was not transparent and not consistent with the commonly applied standards of grants administration.

In the absence of advice to the contrary, it would be reasonable for the Ministers to expect that the assessment process undertaken would demonstrate that the proposed expenditure they were approving represented the efficient and effective use of public money, and met the requirements of the Financial Management and Accountability Regulations. For a number of applications, the advice provided to Ministers did not accurately reflect where assessments were not completed by DAFF, DED or the independent assessor, and where the scope of the assessment was restricted by the Committee. For example, the Advisory Committee did not refer 10 applications over $50 000 to the independent assessor, and restricted the scope of the assessment of another eight applications. The values of the grants for these applications ranged from $62 500 to $7.9 million.

The grants are funded under the programs on a reimbursement basis to minimise the risks to the Commonwealth. However, the funding deeds negotiated with grant recipients did not always protect the Commonwealth's interests as they did not properly address the ownership of the assets and the financial arrangements underpinning the projects. There were also inconsistencies and errors within the deeds. Further, DAFF was not adequately monitoring compliance with the funding deeds and, where reporting requirements were not being met by grant recipients, they were not always followed up by DAFF.

The programs have not been subject to any coverage by the department's internal audit, and reporting arrangements did not bring to notice the extent of shortcomings in the administration of the programs. Currently, reporting of the programs is through periodic divisional performance reviews and reports prepared for the Minister and DAFF Executive. These reports provide limited information on the administration of the programs and do not report on performance against the outcome indicators in the Portfolio Budget Statements and departmental project plan for the three programs.

DAFF did not report against all outcome indicators for the programs in its 2006–07 Annual Report. As a result, Parliament has not been informed of the achievements (or otherwise) of the programs in meeting their objective. Consideration also needs to be given to the performance data being collected for these indicators and the level of department verification required. This is particularly important as DAFF has indicated that it intends evaluating the programs when completed in June 2009.

This audit has highlighted the importance of departments obtaining assurance through their governance arrangements that the administration of programs is in accordance with expectations, as outlined in instructions and guidance. In the case of the TCFA industry assistance programs, DAFF had appropriate Chief Executive Instructions and a sound basis for assessing and approving applications. However, the administration of the programs did not always adhere to these requirements indicating a need for the department to give greater emphasis to supervision, training, quality assurance and management reporting for these programs.

The ANAO has made three recommendations to improve the administration of the programs but also encourages DAFF to reinforce to those administering these programs the importance of adhering to existing departmental requirements.

8 Of the 184 applications received at 30 November 2007, 56 applications were still being processed, 18 applications had been withdrawn and a further 12 applications had been resubmitted under another TCFA program.

9 FMA Regulation 9 requires that an approver (be that a Minister, agency Chief Executive or authorised official) must not approve a spending proposal unless satisfied, after undertaking such inquiries that are reasonable, that the proposed expenditure is in accordance with the policies of the Commonwealth and will make efficient and effective use of public money.

Key findings by chapter

Implementation of the Programs and Ongoing Governance Arrangements (Chapter 2)

Implementation plans for the programs

The TCFA was included in the Department of the Prime Minister and Cabinet's (PM&C) quarterly implementation report to Cabinet. The Cabinet Implementation Unit (CIU) identified five sets of initiatives for which implementation plans were required, including the three forestry assistance programs. Implementation plans were not prepared by DAFF until requested by the CIU in August 2005. However, these plans were never finalised or approved within the department as PM&C decided in September 2005, that the TCFA would no longer be included in the CIU quarterly report.

The draft assessment of risks developed for the CIU plans was not comprehensive and did not flow through to a risk management strategy for the programs. The draft plans also included five 'success factors' for each program. However, DAFF did not specify any performance indicators to measure these success factors or what performance information would be required to assess whether they had been achieved. Although both plans stated DAFF's intention to evaluate the programs when completed, there was no indication that consideration had been given to the performance information needed for this evaluation.

Implementing the planning and reporting framework

The 2006–07 and 2007–08 Portfolio Budget Statements and departmental project plans included three outcome performance indicators for the programs: the number of businesses assisted and jobs maintained; the amount of new investment in forestry industries; and the assistance given within agreed timeframes.

Currently, reporting of the programs is through periodic departmental performance reviews and reports prepared for the Minister and DAFF Executive. However, these reports do not include performance against the outcome indicators for the three programs and provide limited information on the administration of the programs.

DAFF did not report against all the outcome indicators in its 2006–07 Annual Report. The report noted the number of companies assisted and jobs likely to be created but not the number of jobs maintained. The amount of new investment was not identified specifically for the programs and there were no details of ‘assistance given within agreed timeframes’. As a consequence, Parliament has not been advised of whether the programs are achieving their outcomes.

DAFF is not collecting all the performance data required to report against these indicators. The level of verification required for the employment data being reported by grant recipients also needs to be considered. While assessment of progress against agreed timeframes is also feasible, DAFF has not developed any targets or milestones to facilitate either internal or external reporting or identified the performance information required.

Promoting Awareness of and Developing Guidelines for the Programs (Chapter 3)

DAFF has established a close working relationship with the Tasmanian forest industry. This relationship assisted the department in widely disseminating information to potentially eligible applicants. DAFF advertised for applications (or expressions of interest) in national newspapers and forest industry specific magazines. Potential applicants also had the opportunity to ask questions about the programs at information seminars held throughout Tasmania. The ANAO considers that DAFF effectively promoted the programs to potential applicants within the industry through its awareness raising activities and promotional material.

Developing program guidelines

DAFF advised that the Australian and Tasmanian governments agreed that the guidelines for the three programs would be developed in consultation with industry stakeholders and the Advisory Committee before being approved by the Ministers. As a result, DAFF had extensive discussions and negotiations with the Tasmanian Government and consulted widely with industry stakeholder groups. The stakeholders interviewed by the ANAO supported this consultation process and the opportunity to provide input into the development of the programs’ guidelines.

The guidelines provided general information about the programs, the eligibility criteria and funding priorities. They did not however, outline the financial information to be provided by applicants, avenues of appeal, the timeframe for processing applications or provide the relative importance of appraisal criteria. In these respects, the guidelines differed considerably from the department’s other forest related industry program guidelines.

Method and scale of rating applications

In developing the guidelines, DAFF circulated to the Advisory Committee draft criteria for the assessment and weighting of applications that had been used in other forestry programs. The Committee considered the draft criteria too prescriptive and not suitable for the programs. It did not believe it could weight the program eligibility criteria in any meaningful manner as many of the agreed criteria are subjective, for example, financially sound business and capable management. The Committee also considered that the multiple priorities listed under the guidelines indicated that the Australian and Tasmanian governments wanted the funding to be available to businesses involved in any aspect of the forest industries, rather than a narrow subset.

The purpose of developing a method and scale of rating projects is to enable discrimination between the comparative merit of projects in terms of the selection criteria and meeting the objectives of the programs. This approach, which may include rating all criteria equally, also means that applications are appraised consistently and fairly. This was particularly important as the Committee had decided to assess applications on a continuous basis rather than through specific funding rounds. Also, adopting such an approach would have met the requirement of the department's Chief Executive Instruction on Grant Management that a systematic assessment process be established in advance that included, among other things, the method and scale of rating applications.

Assessment and Approval of Applications for funding (Chapter 4)

The framework for assessing and recommending applications to the Australian and Tasmanian Government Ministers for their joint approval was outlined in the Memorandum of Understanding (MoU) and exchange of letters between the two governments. Under these arrangements, an Advisory Committee was to assess applications for assistance and to make recommendations to the Ministers on the allocation of funds under the programs. The Committee was supported by a DAFF secretariat and an independent assessor.

Potential for conflicts of interest

The Advisory Committee included representatives from the Australian and Tasmanian Governments and three other members with expertise in the forest and forest products industries or other relevant expertise. The independent assessor was also industry based and had sub-contracted key financial analysis to an accounting firm associated with the forest industry. Although the potential for conflicts of interest was not identified as a risk by DAFF as part of the program implementation planning process, arrangements were put in place to handle potential conflicts of interest that might arise during the assessment of applications.

The Advisory Committee

The department's *Better Practice Guide for Advisory Committees* sets out the process for managing a declared potential conflict of interest. The ANAO examined the terms of reference, code of conduct and operating protocols prepared for the Advisory Committee and these are broadly consistent with DAFF's Guide. DAFF advised that the independent members were not asked to nominate any potential conflicts of interest at the time of appointment, but believes that the independent members have diligently identified any potential conflicts of interest during committee meetings, in accordance with the procedures in the code of conduct. The minutes of face-to-face Advisory Committee meetings from August 2005 to September 2007 recorded potential conflicts of interest for committee members on five occasions.

It was not evident how potential conflicts of interest were addressed when the Advisory Committee met via three teleconferences. The proceedings of only one teleconference (September 2005) were documented. DAFF advised that applications were only discussed during one teleconference and the other two involved the development of the guidelines for the programs.

The independent assessor

The potential for conflicts of interest also applied to the independent assessor and their sub contractor as both companies have interests in the Tasmanian forest industry. These companies have access to sensitive commercial information provided by applicants and may also have access to government material, which is not in the public domain.

There is a Consultancy Agreement in place between the independent assessor and DAFF. However, the role of the sub contractor was not formalised in this Agreement and there was no formal contract between the independent assessor and the sub-contractor. The ANAO considers that it would be prudent for DAFF and the independent assessor to formalise arrangements with the sub contractor and to take steps to ensure that the sub contractor is not in a position where its business, or personal interests, could result in a potential conflict of interest situation.

Assessment of applications

The *Financial Management and Accountability Act 1997* (FMA Act) provides a framework for the proper management of public money. Many of the detailed rules about how public money and property are to be dealt with are in the *Financial Management and Accountability Regulations 1997*. FMA Regulation 9 requires that an approver (be that a Minister, agency Chief Executive or authorised official) must not approve a spending proposal unless satisfied, after undertaking such inquiries as are reasonable, that the proposed expenditure is in accordance with the policies of the Commonwealth and will make efficient and effective use of public money. DAFF’s *Chief Executive Instruction on Grant Management* also requires systematic assessment processes be established, which include the: information to be provided with grant applications; grant eligibility criteria; and method and scale of rating applications.

Assessment of applications against eligibility criteria

DAFF undertook a preliminary assessment of the applications against the eligibility criteria[10] outlined in the program guidelines and documented its assessment in a report to the Advisory Committee. An assessment was completed for 79 of the 88 approved applications. DAFF advised that it did not assess the other nine applications because there was insufficient time before the next Advisory Committee meeting was convened and that the Committee considered these applications in relation to the program guidelines. The total value of the grants for the nine applications approved without a DAFF assessment was almost $9 million. The individual grants ranged from $49 950 to $7.9 million.[11]

Assessment of applications by the Advisory Committee

The Advisory Committee assessed all applications, including against the funding priorities outlined in the guidelines for the programs. The highest priority for funding across the programs was given to proposals from applicants affected by the impact of the TCFA. Other priorities for funding included innovation and the provision of significant upgrading of technology and industry-wide, State-wide or regional benefits.

As part of its assessment of the applications, the Committee decided which applications would be assessed by the independent assessor.[12] However, there were no criteria or thresholds that determined which applications would be subjected to the more detailed review undertaken by the assessor. DAFF advised that applications requesting more than
$50 000 in funding were generally sent to the assessor. As at 30 November, 89 applications had been referred to the independent assessor. Ten applications over the $50 000 threshold were approved without an independent assessment being carried out. There were also eight applications where the scope of the assessment was restricted by the Advisory Committee.

The Advisory Committee did not use appraisal checklists or assessment summaries to document its assessment of applications. The Committee also decided not to undertake a comparative assessment of applications and recommended applications were not rated or ranked. The Committee meeting minutes briefly summarised the Committee’s discussion surrounding each application. The entry for each application generally included: the value of the proposed grant; a brief description of the project or equipment; whether the assessor’s report (where available) was favourable; and the risk rating assigned by the assessor. Any action to be taken by the Secretariat or DED to progress the application and whether it would be submitted to the Ministers for approval was also noted.

The ANAO’s analysis of the assessments undertaken for the 88 approved applications indicated that:

- for three applications (for $49 950, $68 312 and) $102 585) there was only a DED assessment;
- six of the 14 approved applications (43 per cent) under $50 000 only had a preliminary assessment by DAFF against the eligibility criteria for the programs. These assessments did not cover the financial viability of the applicant or the technical and operational viability of the proposed projects, areas normally covered by the independent assessor or, to a lesser extent, by DED;
- 10 of the 74 approved applications over $50 000 were not referred to the independent assessor;
- the scope of the independent assessment of eight applications over $50 000 was restricted by the Advisory Committee. For five of these applications, the

financial viability of the applicant was excluded from the assessment. For the other three applications, aspects of the financial viability of the proposal were excluded.

The total value of these 18 grants over $50 000 was in excess of $13 million, with individual grants ranging from $62 500 to $7.9 million. Three of these applications (with a total value of $8.2 million) were not assessed by DAFF.[13]

Advice provided to the Ministers

The existence of an agreed assessment and approval framework for the three programs created the expectation that applications had been properly assessed. The agreed assessment process also met the requirements of FMA Regulation 9—to undertake ‘reasonable inquiries’ to demonstrate that the proposed expenditure would make efficient and effective use of public money. The Ministers approved all applications recommended by the Advisory Committee. In approving this funding, the Ministers relied upon DAFF’s and the Advisory Committee’s assessments and advice.

Ministers were advised that recommendations had been unanimously agreed by the Committee after taking into account advice from DAFF, Tasmanian Government officials and the independent assessor and the adequacy of applicants’ business plans. However, the Ministers were not advised that 10 applications (over the $50 000 threshold) had not been assessed by the independent assessor or when the scope of this assessment was restricted for a further eight applications.

Similarly, the Ministers were not informed that there had only been an assessment by DAFF against the eligibility criteria for six applications under $50 000. There was also no documentation to support the Advisory Committee’s assessment of the applications. In the absence of such advice, Ministers would reasonably presume that the process outlined in the MoU and exchange of letters between the two governments had been followed in the assessment of applications.

Quality of information used to assess applications

The Advisory Committee and DAFF had a responsibility to ensure that a full assessment of applications was undertaken. This would ensure that any funding decision made by the Ministers took account of all relevant information and met the requirements of the FMA Regulations. The ANAO considers that the assessment of applications could have been more effective if:

- credit and Australian Securities Investment Commission (ASIC) checks had been undertaken when assessing an applicant’s financial viability;
- processes were established to determine how the value of second hand equipment would be assessed; and
- documentation was requested to support the specific financial arrangements for the proposals.

Details of all sources of government funding should also be requested from applicants and taken into consideration, in order to avoid the possibility of applicants ‘double dipping’ from other Australian Government programs. The ANAO has suggested

DAFF include these elements in the assessment of applications in any future grant program.

Timeliness of the assessment process

The average time taken to finalise approved applications was 10 months, with 28 applications taking in excess of 12 months. Four applications took in excess of 24 months. The ANAO recognises that there were valid reasons for delays in processing applications. However, it should be a cause for concern where applications are taking in excess of 12 months to process. The ANAO considers that the time taken to process applications could have been reduced if DAFF had put in place strategies to better manage delays. For example, applicants could have been:

- asked to provide complete supporting information or told to seek assistance from DED to prepare a business case prior to the application being referred to the Advisory Committee; and
- given a reasonable timeframe in which to respond to information requests and, when they did not, been advised that their application would no longer be considered for funding unless the necessary documentation was provided.

Monitoring Compliance with the Funding Deeds (Chapter 5)

DAFF was responsible for negotiating the funding deeds with approved applicants and monitoring compliance with the deeds. The funding deed used for the programs differed from the standard funding deed and deed of grant used within the department at the time. The program area advised that it revised the standard deed to reflect that the grants funded under the three programs would be paid on a reimbursement basis, rather than as an ‘upfront’ payment for future commitments.

Ownership of the assets and funding deed implications

The definition of assets in the funding deed used for the programs has implications for the obligations within the various asset clauses of the deed. The definition of an asset in the deed ‘means an asset acquired by the recipient wholly or partially with the grant’. However, clause 10.1 of this deed states that ‘an asset is owned by the recipient’.

Legal advice indicated that the assets under the programs’ funding deeds are only those that are in fact owned by the recipient. However, some assets funded were acquired through financial arrangements such as hire purchase, chattel mortgage and business loans. Whether or not a particular asset is owned by the recipient depends upon the specific terms of the agreement for the acquisition of that asset. As a consequence, the provisions of the funding deed that apply to assets may not apply to those assets acquired by the recipient under these arrangements. For example, there is no requirement on the recipient to use those assets for the purposes consistent with the project or to pay the Commonwealth the attributable proportion of proceeds if the funded asset is sold, lost, damaged or disposed of within three years.

The ANAO noted that information on the type of finance arrangement was not specifically identified when applications were approved and funding deeds negotiated.

The funding deeds did not provide details of the financial arrangements under which assets were purchased. This information was sourced by the ANAO from applications, the assessment of applications and payment claims.

Payments to recipients

DAFF's Chief Executive Instruction on Grant Management indicates that procedural rules and operational guidelines should outline payment procedures, including the payment of grant instalments where approved, and review and compliance mechanisms. DAFF does not have a documented compliance monitoring strategy for the programs or operational guidelines for staff. It has relied on the experience officers have gained through administering other grant programs. To monitor the grants, DAFF has developed a number of spreadsheets, which detail the status and progress of applications and the payments made to recipients.

Payment evidence

The ANAO examined all payments made to recipients up to 30 November 2007. These payments totalled $16.6 million. The ANAO considers that, where supporting documents of purchase are incomplete, such as unsigned and undated contracts and tax invoices with the full balance of payment owing, DAFF should request further evidence of purchase such as a receipt. DAFF indicated that the audited statement received at the conclusion of the project confirmed the purchase. However, the audited statement may not be received until several months after the payments are made.

Each claim for payment is to include a milestone report. This report provides information relating to the effectiveness of the new equipment and employment details. Of the 67 milestone reports due with the claims for payments, 30 were received before the payment was made. There were 37 instances where DAFF made payments, where the milestone report had not been received.

Monitoring of funding deeds

DAFF is not adequately monitoring compliance with the funding deeds and this is compounded by inconsistencies and errors within the deeds. The requirements for milestone reports, final reports and audited statements are outlined in the body and schedules of the deed. However, there are inconsistencies, duplication and unclear due dates between these sections of the deed. The content of the final report is also duplicated, to some extent, by the audited statement. Recipients are not always providing milestone reports, final reports and audited statements and, when they do, the reports do not meet the requirements outlined in the funding deed. Clarifying reporting requirements and providing guidance (including pro formas) on the format and content of required reports would assist recipients. Outstanding reports and audited statements should also be followed up to properly acquit the grants.

10 The eligibility criteria required applicants to demonstrate that their project was: industry and market focussed and commercially viable, financially sound and capable of providing or attracting funds; supported by secure long-term access to forest products; capably managed; and contributing to the industry's competitiveness.

11 DAFF advised that, although a preliminary assessment was not completed for the $7.9 million grant application, it did provide an assessment following receipt of the independent assessor's report. Due diligence work was also undertaken by the Tasmanian Government for this major project.

12 This assessment covered the financial status of the applicant, an assessment of the financial viability and the technical and operational feasibility of the applicant's proposal, investment risk analysis, sustainability of new jobs and availability of infrastructure.

13 Two of these applications (for $68 312 and $102 585) were assessed by DED and DAFF advised that the Tasmanian Government completed due diligence work for the $7.9 million grant.

Summary of DAFF's response to this audit

The Tasmanian Community Forest Agreement Industry Development programs are three programs jointly agreed and implemented by the Australian and Tasmanian governments. The operational program guidelines for the administration of the programs were agreed by the Australian and Tasmanian governments after lengthy consultation with stakeholders to provide specific guidance on how the concepts set out in a Memorandum of Understanding (MOU) and exchange of letters would be implemented. The programs are based on the reimbursement 25 to 50 per cent of total project expenditure to successful applicants, as opposed to 100 per cent of up front payments, which is common in a number of grant programs. Assessment of applications and recommendations for funding to decision makers was undertaken by an Advisory Committee established by both governments. The Department of Agriculture, Fisheries and Forestry (DAFF) accepts that in this context, ANAO's finding that some aspects of the programs' final administration differ from departmental 'best-practice' guidelines.

DAFF notes the ANAO's conclusion that it developed, in conjunction with the Tasmanian Government, a sound framework for assessing and approving applications for the three programs. In addition the ANAO found that DAFF effectively promoted the programs to potential applicants within the industry through its awareness raising activities and promotional material.

DAFF notes and welcomes the report's recommendations to collect and record performance data to more effectively report against the outcome performance indicators; to tailor the standard funding deeds to better reflect payment methods and financial arrangements in place to acquire assets; and to put in place clear payment guidelines and reporting requirements to better monitor compliance with the funding deeds.

While not yet fully implemented, the industry development programs have met the Government's objectives by leveraging significant investment from industry participants and assisting forest industry companies to adjust to the changing nature of the timber resource in Tasmania.