Submission No 23

INQUIRY INTO INTEGRITY, EFFICACY AND VALUE FOR MONEY OF NSW GOVERNMENT GRANT PROGRAMS

Organisation: NSW Auditor General

Date Received: 21 August 2020

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21 August 2020

Dear Mr Shoebridge

Inquiry into the integrity, efficacy and value for money of NSW Government grant programs

Thank you for the invitation to make a submission to the Public Accountability Committee's inquiry into the integrity, efficacy and value for money of NSW Government grant programs.

The effective allocation of funding for grants is an important focus area for my performance audit program. Recent performance audit reports assessing grants/program administration include:

- Regional Assistance Programs published on 17 May 2018
- Grants to non-government schools published on 3 May 2018
- Government assistance to industry published on 17 December 2015
- Regional Road Funding - Block Grant and REPAIR Programs published on 8 May 2014
- Management of the ClubGRANTS Scheme published on 2 May 2013.

Summaries of these reports are enclosed with this letter.

I continue to give focus to grants administration in my three-year forward program of performance audits. My annual work program, available at https://www.audit.nsw.gov.au/annual-work-program-2020-21, outlines the following topics related to grants administration.

Grants administration for disaster relief – planned audit for 2020-21

In response to the 2019–20 bushfires and COVID-19 pandemic, the NSW Government is releasing significant funds through grants aiming to provide emergency support, recovery funding and economic stimulus.

An audit in this area could take a largely compliance-based approach to review whether applications are being assessed and funds are being distributed in accordance with program objectives and guidelines. The audit could also look at the efficiency of grants administration and whether funds have been distributed and received in a timely manner.

Grants administration: governance, probity and benefits realisation – planned audit for 2020-21

This audit will consider a selection of grants programs, and assess whether they are being effectively targeted, administered and delivered to achieve expected outcomes.

Investment in regional development – planned audit for 2020-21

In 2017, the NSW Government announced a Regional Development Framework which provides a scaffold for better coordination, decision making and effort on the ground. The NSW Government recognised the need to be more strategic and better coordinated if it is to make a difference, particularly in addressing some of the serious issues facing regional NSW such as pockets of youth unemployment, social disadvantage, changing economic opportunities and increased competition. This audit will consider whether regional development and grant programs are well coordinated and delivering improvements. Grants programs of interest include Regional NSW's growth and infrastructure funds, such as the Snowy Hydro Legacy Fund, and funds for tourism, jobs and community amenity. It may be performed as a standalone topic or as part of a place-based audit and may also consider the role of the Department of Planning, Industry and Environment.

I have recently received a number of requests for audits from Members of the Parliament of New South Wales relating to specific grant programs. These requests have been considered in developing my annual work program and the possible scope of the audits included on the work program. From 1 July 2019 I commenced publishing requests for audit from Members of Parliament, and my response, on the Audit Office's website at https://www.audit.nsw.gov.au/our-work/requests-for-audit.

Thank you once again for the invitation to make a submission to the Public Accountability Committee's inquiry. Please don't hesitate to contact me if you would like further information about my reports to Parliament.

Yours sincerely

Margaret Crawford

Auditor-General for New South Wales

Encl.

Summaries of recent performance audit reports to Parliament related to grants/program administration

Regional Assistance Programs[1] – published 17 May 2018

In 2011, the NSW Government established Restart NSW to fund new infrastructure with the proceeds from the sale and lease of government assets. From 2011 to 2017, the NSW Government allocated $1.7 billion from the fund for infrastructure in regional areas, with an additional commitment of $1.3 billion to be allocated by 2021. The NSW Government allocates these funds through regional assistance programs such as Resources for Regions and Fixing Country Roads. NSW councils are the primary recipients of funding provided under these programs.

The NSW Government announced the Resources for Regions program in 2012 with the aim of addressing infrastructure constraints in mining affected communities. Infrastructure NSW administers the program, with support from the Department of Premier and Cabinet.

The NSW Government announced the Fixing Country Roads program in 2014 with the aim of building more efficient road freight networks. Transport for NSW and Infrastructure NSW jointly administer this program, which funds local councils to deliver projects that help connect local and regional roads to state highways and freight hubs.

This audit assessed whether these two programs (Resources for Regions and Fixing Country Roads) were being effectively managed and achieved their objectives. In making this assessment, we answered the following questions:

- How well are the relevant agencies managing the assessment and recommendation process?
- How do the relevant agencies ensure that funded projects are being delivered?
- Do the funded projects meet program and project objectives?

The audit focussed on four rounds of Resources for Regions funding between 2013–14 to 2015–16, as well as the first two rounds of Fixing Country Roads funding in 2014–15 and 2015–16.

Conclusion

Infrastructure NSW effectively manages how grant applications are assessed and recommended for funding. Infrastructure NSW's contract management processes are also effective. However, we are unable to conclude on whether program objectives are being achieved as Infrastructure NSW has not yet measured program benefits.

While Infrastructure NSW and Transport for NSW managed the assessment processes effectively overall, they have not fully maintained all required documentation, such as conflict of interest registers. Keeping accurate records is important to support transparency and accountability to the public about funding allocation. The relevant agencies have taken steps to address this in the current funding rounds for both programs.

For both programs assessed, the relevant agencies have developed good strategies over time to support councils through the application process. These strategies include workshops, briefings and feedback for unsuccessful applicants. Transport for NSW and the Department of Premier and Cabinet have implemented effective tools to assist applicants in demonstrating the economic impact of their projects.

Infrastructure NSW is effective in identifying projects that are 'at-risk' and assists in bringing them back on track. Infrastructure NSW has a risk-based methodology to verify payment claims, which includes elements of good practice in grants administration. For example, it requires grant recipients to provide photos and engages Public Works Advisory to review progress claims and visit project sites.

Infrastructure NSW collects project completion reports for all Resources for Regions and Fixing Country Roads funded projects. Infrastructure NSW intends to assess benefits for both programs once

[1] https://www.audit.nsw.gov.au/our-work/reports/regional-assistance-programs

each project in a funding round is completed. To date, no funding round has been completed. As a result, no benefits assessment has been done for any completed project funded in either program.

Key findings

The assessment criteria reflect the program objectives

When the NSW Government approved the program criteria and objectives, Infrastructure NSW developed an assessment methodology for both programs. This methodology included assessment criteria, and a process for recommending projects for funding, that aligned with program objectives.

In the rounds of Resources for Regions and Fixing Country Roads that we reviewed, all funded projects had undergone assessment and were recommended by the Regional Independent Assessment Panel and Infrastructure NSW. We found that funded projects met all the assessment criteria.

Infrastructure NSW has not measured project benefits for completed projects

Infrastructure NSW requires grant recipients to submit project completion reports. However, they do not require grant recipients to assess project outcomes or benefits. Infrastructure NSW noted that, consistent with the Infrastructure Investor Assurance Framework, an assessment of program level benefits would be done once every project in a funding round has been completed. To date, Infrastructure NSW has not measured the benefits for any project funded under either Resources for Regions or Fixing Country Roads. Without project level benefits realisation, future funding decisions are not informed by the lessons from previous investments.

Probity and record keeping practices did not fully comply with the probity plans

Infrastructure NSW developed probity plans for both programs based on a framework provided by its probity advisor. The probity plans provided guidance on the record keeping required to maintain an audit trail, including the use of conflict of interest and probity registers. Infrastructure NSW did not fully comply with these requirements. For example, Infrastructure NSW did not maintain the conflict of interest registers for Resources for Regions and not all public servants involved in the assessment process signed declarations about potential conflicts of interest. The relevant agencies have taken steps to address this in the current funding rounds for both programs.

In addition, Infrastructure NSW engaged the same consultancy to act as its internal auditor and probity advisor. While this is unlikely to have had a major impact on the assessment process, it did introduce a conflict of interest when the consultancy’s internal audit report referred to its work as probity advisor to support its findings that there were no known probity issues or concerns.

Infrastructure NSW uses a risk-based approach to manage projects effectively, but some areas could be strengthened

Infrastructure NSW manages the funding deeds for projects funded under Resources for Regions and Fixing Country Roads. It appropriately identifies and manages at-risk projects, and take steps to resolve issues to bring them back on track.

Infrastructure NSW, working with Public Works Advisory regional offices, employs a risk-based approach to validate payment claims. Infrastructure NSW would get better assurance by also conducting annual compliance audits for a random sample of funded projects.

Some projects have been underspent, and in some cases grant recipients have submitted change requests to extend the scope of the project to use the unspent funds. Infrastructure NSW does not require grant recipients to provide any revised economic impact data to support these requests, creating a risk that funds are not being used in the most effective ways to support program objectives. Consideration should be given to reallocating unused funding through the assessment process to ensure that all funding is being used to support the program objectives.

Agencies' support for applicants has improved over successive rounds of the two programs

For both programs, the relevant agencies conducted briefings and webinars for applicants. The briefings included information on how applicants should demonstrate that their project meets the selection criteria. Transport for NSW and the Department of Premier and Cabinet have also developed tools to assist councils to demonstrate the economic impact of their applications.

The relevant agencies provide feedback on unsuccessful applications to councils. Councils reported that the quality of this feedback has improved over time.

Grants to non-government schools[2] – published 3 May 2018

Non-government schools educate 418,000 school children each year, representing 35 per cent of all students in NSW. The NSW Department of Education administers several grant schemes to support these schools, with the aim of improving student learning outcomes and supporting parent choice. To be eligible for NSW Government funding, non-government schools must be registered with the NSW Education Standards Authority (NESA) and not operate 'for profit' as per section 83C of the *NSW Education Act 1990* (the Act). Non-government schools can either be registered as independent or part of a System Authority.

In 2017–18, non-government schools in NSW will receive over $1.2 billion from the NSW Government, as well as $3.4 billion from the Australian Government. Recently, the Australian Government has changed the way it funds schools. The NSW Government is assessing how these changes will impact State funding for non-government schools.

This audit assessed how effectively and efficiently NSW Government grants to non-government schools are allocated and managed. This audit did not assess the use of NSW Government grants by individual non-government schools or System Authorities because the Auditor-General of New South Wales does not have the mandate to assess how government funds are spent by non-government entities.

Conclusion

The Department of Education effectively and efficiently allocates grants to non-government schools. Clarifying the objectives of grants, monitoring progress towards these objectives, and improving oversight, would strengthen accountability for the use of public funds by non-government schools.

We tested a sample of grants provided to non-government schools under all major schemes, and found that the Department of Education consistently allocates and distributes grants in line with its methodology. The Department has clear processes and procedures to efficiently collect data from schools, calculate the level of funding each school or System should receive, obtain appropriate approvals, and make payments.

We identified three areas where the Department could strengthen its management of grants to provide greater accountability for the use of public funds. First, the Department's objectives for providing grants to non-government schools are covered by legislation, intergovernmental agreements and grant guidelines. The Department could consolidate these objectives to allow for more consistent monitoring. Second, the Department relies on schools or System Authorities to engage a registered auditor to certify the accuracy of information on their enrolments and usage of grants. Greater scrutiny of the registration and independence of the auditors would increase confidence in the accuracy of this information. Third, the Department does not monitor how System Authorities reallocate grant funding to their member schools. Further oversight in this area would increase accountability for the use of public funds.

Key findings

The Department allocates grants to eligible schools in accordance with its methodology

The Department of Education (Department) has adequate processes to accurately allocate grants to eligible schools in accordance with the approved methodology. We reviewed a sample of grants paid to non-government schools under all major schemes. We checked that the level of funding aligned with the approved allocation and did not identify any significant discrepancies.

The Department advised that it has recently strengthened its approach to processing payments to non-government schools. The Department has introduced a new payment process, and additional checklists, to provide greater confidence in the accuracy of future grant allocations.

[2] https://www.audit.nsw.gov.au/our-work/reports/grants-to-non-government-schools

The Department does not monitor schools' progress towards meeting all grant objectives

The Department does not monitor schools' progress towards meeting objectives in a way that gives it clear oversight of the use of funds. The main objectives for the per-student grant programs are to increase the rate of students completing Year 12 (or equivalent), and to improve education outcomes for students. Non-government schools are required to publicly report on some educational measures via the MySchool website. These measures do not address all the objectives. Strengthened monitoring and reporting of progress towards objectives, at a school level, would increase accountability for public funding. This may require the Department to formalise its access to student level data from non-government schools.

The Department has stronger practices to monitor progress towards the objectives of the Building Grants Assistance and Supervisor Subsidy schemes. The quarterly reports received from the funding recipients detail how grants have been used to support the schemes' objectives.

The Department does not directly verify the information it receives from schools

The Department does not directly verify the information it receives from non-government schools to determine per capita funding or to acquit the use of grants. To determine the level of per capita funding, the Department requires schools to complete a student census. Schools are also required to acquit that they have used grants in line with five categories for acceptable use of per capita funding. Schools must have their census and acquittal certified by an external auditor registered with ASIC. The Department advised that it conducts an annual spot check of auditor registration, but this could be strengthened to ensure adequate coverage. The Department does not assess the independence of the auditors.

Conducting further checks of auditors, or verifying information directly, would provide the Department with increased confidence that enrolment data is accurate, and that grants are being used in accordance with the five categories. Any further processes should build on the work the Australian Government already does in this area to avoid duplication.

Clarifying guidance would help ensure funding is spent within accepted categories

The Department's acquittal procedures provide limited assurance that grants are being used only for intended purposes. In addition to abiding by the not-for-profit requirements detailed in the Act, schools are required to declare they spent per capita funding in line with the Department's five broad categories of acceptable use. Further clarifying these categories by providing examples of acceptable expenses under each category would help to ensure grants are not used for unintended purposes.

There are gaps in oversight of System Authorities

The Department does not monitor how System Authorities (Systems) reallocate grant funding between their member schools. The Department does not require Systems to report on how much funding each school receives, or how much funding is retained by the System for administration. Systems submit a single certified declaration that the per capita funding was used in line with the Department's categories. This means the Department does not receive enough information to verify grants are used by each school as intended. Strengthening oversight of the use of funds and how Systems reallocate funding would increase accountability for public funding.

Increased focus on school governance is required

Given its importance to the appropriate use of government funding, NESA could increase its oversight of schools' governance. NESA's approach to monitoring the compliance of non-government schools with registration requirements prioritises student learning and wellbeing. Increased oversight could be achieved through expanding its program of random inspections to include the requirements for policies and procedures for proper governance of the school.

In addition to NESA's role, the Department assists the Non-government Schools Not-For-Profit Advisory Committee to conduct a program of audits to detect breaches of the not-for-profit requirements. These audits are targeted to a small sample of higher-risk schools identified by using information from past breaches and other risk factors. Formal information-sharing arrangements would help the Department and NESA to routinely exchange information to target their monitoring to higher-risk schools.

Government Assistance to Industry[3] – published 17 December 2015

The audit assessed whether the former Department of Trade and Investment, Regional Infrastructure and Services (DTIRIS) could demonstrate that its assistance to industry was effective. The audit was restricted to direct industry assistance and did not cover tax concessions or regulatory assistance.

Our audit focused on seven industry assistance programs administered through agencies in the former Trade and Investment, Regional Infrastructure and Services cluster. During the course of the audit, changes were made to NSW Government cluster arrangements. This led to a transfer in responsibility for several industry assistance programs. Further, the NSW Government announced that it would replace two industry assistance programs we examined (State Investment Attraction Scheme and Regional Industries Investment Fund) with a new scheme (Jobs for NSW Fund).

Conclusion

The Department was unable to demonstrate that the direct assistance it provided to industry was effective in achieving long term industry development objectives.

The NSW Government does not have an overarching rationale that identifies the circumstances under which the use of direct industry assistance is justified. The lack of principles or guidelines around when it is appropriate to provide public money to private businesses for the purpose of industry development is a concern for accountability.

The Department cannot demonstrate that the scale and coverage of its industry assistance programs are consistent with government priorities as it does not consistently collect information, or report comprehensively on support provided to priority industries or regions.

The Department cannot demonstrate that its programs delivered sustained benefits after support ceased because there has been limited ex-post evaluation of industry assistance.

No consistent definition of industry assistance or rationale to properly justify its provision

Through DTIRIS, the NSW Government has a number of programs that provide direct financial assistance to industry to achieve desired outcomes. There is no agreed definition of industry assistance and no overarching rationale for why direct industry assistance should be used. There is also no reporting on the total amount of assistance provided to industry. The Department advises that addressing a priority of the government of the day provides a rationale for using industry assistance. There are many ways, however, to achieve the outcomes sought by government. Industry assistance is one lever among many.

Reporting on the contribution of industry assistance programs is limited

The Department published information on the total level of expected benefits from its assistance programs in terms of additional jobs, capital investment and exports. This reporting was inconsistent—in some cases it was combined across a number of programs. For a number of programs, the Department linked payment to milestone achievement.

Where milestones are partially achieved, the total payment is reduced. We found, however, that the total benefits reported were based on anticipated completion of all milestones and did not consider the impact of partial achievement. Further, the Department did not report on whether benefits were sustained beyond payment. In the absence of this information, the Department is unable to demonstrate the extent to which an industry has been ‘developed’.

Cost-benefit analysis provides rigour but long-term benefits were not followed up

The Department conducted detailed cost-benefit analysis for project assistance above

$200,000 but only for the Regional Industries Investment Fund and State Investment Attraction Scheme programs. These estimated the net benefits of the project to the broader community and assessed whether the project was likely to go ahead regardless of whether support was provided. Cost-benefit analysis also shows the point at which assistance would be revenue neutral for the NSW

[3] https://www.audit.nsw.gov.au/our-work/reports/government-assistance-to-industry

Government. This type of cost-benefit analysis should be continued under any future investment attraction programs. Further work, however, needs to be done on long-term follow up of projects to evaluate whether expected benefits were sustained. This may assist in continuously improving industry assistance programs.

Industry assistance programs have not been subject to comprehensive evaluation

Despite some programs being run for many years, the Department has not comprehensively evaluated any of its industry assistance programs. The Department cannot demonstrate that the programs have been achieving their objectives or that the current program design is the most efficient one. Since the NSW Government Evaluation Framework was released in 2013, the Department has conducted an early evaluation of the Arts Funding Program and a program review of the Regional Industries Investment Fund. These examined program logic and alignment to government priorities, and recommended changes to performance indicators to enable future evaluation. Comprehensive evaluations of industry assistance programs are needed to ensure they achieve their objectives efficiently and effectively.

Not enough details are published on the recipients of assistance for some programs

Information published for most programs was adequate, if not extensive. However, information for the Regional Industries Investment Fund or the State Investment Attraction Scheme was insufficient for public accountability purposes. The Department announced details for the majority of projects through media releases that outlined the expected number of jobs and amount of investment. The media releases did not detail how much assistance companies received and were not in a single location which limits accessibility. While we acknowledge that the Department must balance commercial confidentiality, future applicant expectations and transparency, the information presently reported is insufficient for providing public money to private companies.

Industry assistance programs did not have clear output and outcome targets

No program examined specified an expected level of benefits at a program level or had targets for the contribution made toward targets in the former NSW 2021, the Department's Strategic Plan or the NSW Economic Development Framework (2013). We found the high level macroeconomic targets in these strategic plans were more likely to be influenced by general economic conditions than the Department's activity. Nonetheless, the lack of program level targets limits the Department's accountability for results. Appropriately defined targets may encourage the selection of projects with the highest net benefits.

The Department could not demonstrate how the scale and coverage of its industry assistance programs aligned with government priorities

The Department administers programs that use industry assistance across many industry sectors. Priority industries are identified in the *NSW Economic Development Framework (2013)*. The Department did not consistently record or report information on industry sector for supported projects. Without this, the Department was unable to demonstrate how the scale and coverage of industry assistance aligned with government priorities. Better collection, analysis and reporting of industry support will assist in ensuring that programs are targeted at the highest need regions and industries and have the biggest economic impact.

Regional Road Funding - Block Grant and REPAIR Programs[4] – published 8 May 2014

Regional Roads perform a support function between the main arterial network of State Roads and the network of Local Roads. Regional Roads connect smaller towns to the State Roads network and with each other in rural areas and they provide sub-arterial connections in urban areas. There are around 18,250 kms of Regional Roads in NSW.

Roads and Maritime Services (RMS) controls State Roads and councils control Regional and Local Roads. In recognition of their importance to the State's economy, the State government provides a financial contribution to help councils manage and maintain Regional Roads. The two main funding sources are the Regional Roads Block Grant and the REPAIR (REPair And Improvement of Regional Roads) programs which are administered by RMS.

We examined whether the Block Grant and REPAIR programs are effective in promoting value for money outcomes. In doing so we assessed whether the RMS allocation of funds to councils through these programs was efficient and effective. We also looked at whether RMS ensures funds provided under these programs are well spent. We limited our examination to RMS management of the programs because we do not have either the mandate to audit local government directly or 'follow the dollar' powers to directly examine the quality of local government performance data.

Conclusion

The Block Grant program is administratively simple and provides autonomy to councils in determining priorities. There are shortcomings in allocation and accountability which hamper its efficiency and effectiveness:

- the allocation formula for the rural council roads component ignores the disproportionate damage caused by heavy vehicles
- traffic data on which allocations are based is unreliable
- RMS has little assurance that grants are well spent.

RMS has been working to improve aspects of the Block Grant program, in particular the capture, quality and currency of data provided by councils for allocating Block Grants.

The REPAIR program is well designed to promote efficient and effective use of the funds provided by RMS. In particular: it promotes merit-based project selection from a regional perspective to minimise whole-of-life costs and provide positive net economic benefits; uses a collaborative approach to decision-making; and provides an efficient accountability mechanism. However, RMS needs to improve how the program operates in regions to ensure the program's good design translates to optimal results.

Supporting findings

Does Roads and Maritime Services allocate funds to councils under the Block Grant program efficiently and effectively and ensure that funds are well spent?

The Block Grant program is simple in design and operation and administratively efficient. It provides autonomy to councils regarding spending on their Regional Roads and is supported by Local Government NSW.

However, shortcomings exist in both design and operation of the program. These primarily are:

- traffic data provided by councils which supports funding allocation is unreliable
- the allocation formula for the roads component for rural councils does not take account of the impact of heavy vehicles on the need for and cost of road maintenance
- while councils are required to certify they have spent Block Grant money only on Regional Roads, RMS does not obtain assurance that councils have spent the money efficiently and effectively

[4] https://www.audit.nsw.gov.au/our-work/reports/regional-road-funding---block-grant-and-repair-programs

- around ten per cent of the program funds are allocated based on an average of what councils received from the discontinued 3X3 Special Road funding program between 1995 and 1999, rather than on the basis of the Block Grant formulae
- there has been no major evaluation of the program since 1995.

RMS therefore cannot be sure that the Block Grant funds are being efficiently and effectively allocated and used.

Since 2011, RMS has been seeking to improve the quality of council-provided data. This includes:

- creating a position with responsibility to improve the Block Grant program
- establishing a working group in mid 2013 with Local Government NSW, the Institute of Public Works Engineers NSW, and Division of Local Government to address this issue
- modifying the 2013-14 Block Grant agreement to require councils to list each year their full road inventory and traffic counts for each Regional Road and to provide evidence of, and the basis for, determining traffic data.

We support these initiatives if they result in:

- improved reliability of traffic data used for allocations or adoption of a reasonable surrogate
- the allocation formula for the roads component for rural councils taking account of the impact of heavy vehicles.

The program would also be improved if:

- RMS had greater assurance that councils are spending the grant well. This could be achieved by RMS requiring councils to certify that the grant is spent in accordance with priorities and plans established through the Integrated Planning and Reporting requirements established under the *Local Government Act 1993* and *Local Government Amendment (Planning and Reporting) Act 2009* with some risk-based, desk-top assurance of the certification
- RMS evaluated the program approximately every five years.

In making changes to the Block Grant program, RMS needs to strike the right balance between maintaining the administrative efficiency of the program and improving allocative efficiency and accountability.

There are a number of current initiatives elsewhere within government which aim to promote coordinated planning and management of council controlled roads at a regional level. RMS needs to participate in the reform process where possible to capitalise on opportunities to improve the design and operation of the Block Grant program.

Does Roads and Maritime Services allocate funds to councils under the REPAIR program efficiently and effectively and ensure that funds are well spent?

The REPAIR program has a number of positive elements in its design, including:

- it has a clear objective
- projects are to be selected on a merit basis from a regional perspective
- councils, through a regional consultative process, have the major say in the projects undertaken within the overall requirements of the program
- it is intended to fund larger rehabilitation and development projects which minimise whole-of-life costs and provide positive net benefits to the community
- the scope, estimated costs and expected benefits of projects are established up-front, simplifying post-project accountability requirements.

However, shortcomings exist in the operation of the allocation process. These primarily are:

- allocations to RMS regions are based on the same formulae and traffic data used for Block Grant allocations, and therefore have the same shortcomings

- projects in two RMS regions were not selected by RCCs on a merit basis from a regional perspective but on the basis of Block Grant allocations to individual councils
- project assessment methods used by RCCs varied widely across RMS regions, with most not adequately weighted for minimisation of whole-of-life costs and promotion of economic development.

The program would be improved if:

- the allocation to each RMS region under REPAIR was based on formulae which better reflect road management costs and on more reliable traffic information
- RMS ensured that approved projects meet the program requirements, including:
  - all RMS regions ensure that RCCs allocate funds to projects from a regional perspective rather than to individual councils on the basis of the Block Grant formulae
  - project assessments are required to give appropriate weight to economic development and minimisation of whole-of-life costs.
- RMS evaluated the program approximately every five years.

RMS is in the process of appointing a Local Government Program Coordinator in each region to provide assurance that Regional Road funding programs are delivered consistently across RMS regions and in accordance with their objectives and guidelines.

Management of the ClubGRANTS Scheme[5] – published 2 May 2013

The ClubGRANTS scheme, formerly known as the Community Development and Support Expenditure scheme, is to ensure that larger registered clubs in New South Wales contribute to the provision of front-line services to their local communities. Also, the scheme is to ensure that the disadvantaged in the community benefit from the contributions made by clubs.

The scheme was established in 1998 under the *Registered Clubs Act 1976*. Since 2001, *Gaming Machine Tax Act 2001* outlines the legislative responsibilities under the scheme.

This scheme provides tax rebates on gaming machines profits generated by registered clubs when they provide financial or in-kind support for locally-based community programs and services. Clubs are entitled to a maximum of 2.25 per cent in tax rebates on gaming machine profits over $1 million. In 2012, 472 registered clubs participated in the scheme.

Tax rebates can be claimed for three types of expenditure:

- Category one is for projects and/or services that contribute to the welfare and broader social fabric of the local community, and aimed at improving the living standards of low income and disadvantaged people. The total tax rebate allowed is 0.75 per cent of gaming machine profits over $1 million.
- Category two is for other community development support activities and projects not eligible under category one and expenditure allocated to a club's core activities. The total tax rebate allowed is 1.1 per cent of gaming machine profits over $1 million. This was increased in 2011 from 0.75 per cent.
- Category three was introduced in 2011 and is a contribution of 0.4 per cent of gaming machine profits over $1 million by clubs to a Statewide funding pool for large scale projects associated with sport, health and community infrastructure. This is a direct deduction from gaming machine profits.

Under the Act, the Minister for Tourism, Major Events, Hospitality and Racing:

- may publish ClubGRANTS guidelines outlining projects and services that can be funded under each category and how ClubGRANTS funds are to be used
- approve grants for projects and services under category three.

The NSW Office of Liquor, Gaming and Racing (OLGR) manages the scheme and provides administrative support to the minister and the Authority in the carrying out of their statutory responsibilities. The audit focused on how well OLGR carries out this role.

We answered the following questions:

- Are there guidelines consistent with the objectives of the *Gaming Machine Tax Act 2001*?
- Is the scheme managed to deliver according to policy and guidelines?

Conclusion

We found that the ClubGRANTS guidelines were consistent with the objectives of the Gaming Machine Tax Act 2001. We also recognise that the governance arrangements of the scheme are complex. There are many stakeholders involved with various levels of responsibilities.

However, overall, there is room for improvement in the way the ClubGRANTS scheme is managed in accordance with the guidelines. The administration of all three categories should be strengthened.

In the absence of proper monitoring, there is limited assurance that category one is effectively managed.

The Act and the guidelines are silent on how category two should be administered. This leads to a lack of transparency in the provision of funds.

[5] https://www.audit.nsw.gov.au/our-work/reports/management-of-the-clubgrants-scheme

The guidelines outline how category three funds should be administered. However, the relevant processes as set out in the guidelines have not been established one year after the introduction of the new category. All the funds spent to date in category three have been allocated under election commitments.

The Act states that tax rebates are provided if the Authority is satisfied that clubs have spent funds towards community development. We found that the tax rebate approval process is not robust. It also lacks a mechanism to allow feedback on claims that do not comply with the guidelines.

Public reporting on the performance of the scheme is limited. This should be improved so that the public can have confidence that the scheme is achieving its objectives.

The participation of all sectors of the community in the ClubGRANTS scheme is strong and there have been successful projects funded by the scheme. However, to provide assurance that ClubGRANTS funds are spent according to the guidelines, regular monitoring for compliance is required.

OLGR advised it will seek approval in 2013-14 to undertake a review of the implementation of the ClubGRANTS guidelines.

Supporting findings

Is category one effectively managed?

The ClubGRANTS guidelines relevant to category one are consistent with the objectives of the Act. However, the management of category one could be improved through better monitoring.

We found the guidelines were clear on the composition and operations of the local committees.

However, the guidelines are unclear on how clubs should make decisions based on the recommendations from local committees. The Office of Liquor, Gaming and Racing (OLGR) advised that the scheme has been established to provide clubs with a high degree of autonomy, with minimal intervention by government.

We found that compliance with the guidelines varies. We also found that the tax rebate approvals are not robust. Tax rebates are provided to clubs without assessing the validity and accuracy of the returns. These assessments are carried out a few months later. They also lack a mechanism to allow feedback on claims that may not comply with the guidelines.

There have been successful projects funded through this category. However, in the absence of proper monitoring, there is limited assurance on the effectiveness of category one. There is also limited public reporting on the benefits received by the local community through this category.

OLGR advised that it will seek approval in 2013-14 to undertake a review of the implementation of the ClubGRANTS guidelines.

Is category two effectively managed?

The ClubGRANTS guidelines relevant to category two are consistent with the objectives of the Act. However, there could be significant improvements in the management of category two.

Category two provides the highest tax rebate. However, the Act and the guidelines are silent on the administration of these funds. The guidelines are also vague on what can be funded under category two. OLGR advised that the absence of processes for the administration of category two is a matter of government policy and clubs themselves are best placed to make funding decisions.

The tax rebate assessment and approval process for category two is the same as category one.

In the absence of transparent processes for administering category two, the public cannot have assurance that this category is effectively managed.

Is category three effectively managed?

The ClubGRANTS guidelines relevant to category three are consistent with the objectives of the Act. However, there could be significant improvements in the management of category three.

One year after the introduction of category three, the ClubGRANTS Fund committee, set out in the guidelines to administer grants under this category has yet to be established. There have been four grants approved and spent under election commitments.