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8 April 2013

Senator the Hon Bill Heffernan
Chair
Senate Rural and Regional Affairs and Transport References Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Senator Heffernan

Inquiry into Tasmanian Forestry Grants Programs

I refer to Mr Palethorpe's letter of 22 March 2013, seeking a submission addressing all or some of the issues identified in the terms of reference for the Rural and Regional Affairs and Transport References Committee's inquiry into Tasmanian forestry grants programs. The terms of reference for the inquiry cover all findings from the following two Australian National Audit Office (ANAO) performance audit reports:

- ANAO Performance Audit Report No. 22 2012–13, *Administration of the Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit Grants Program* (Report No. 22 2012–13); and
- ANAO Performance Audit Report No. 26 2007–08, *Tasmanian Forest Industry Development and Assistance Programs* (Report No. 26 2007–08).

The ANAO's submission focuses on the background, context and key findings of the grant assistance programs that were administered by the Department of Agriculture, Fisheries and Forestry. A copy of each of the reports is enclosed.

I understand that officers from the Committee's secretariat met with my officers on 28 March 2013 and that we have been asked to appear before the Committee on 7 May 2013.

We look forward to further discussing the ANAO's reports and submission with the Committee.

Yours sincerely

Ian McPhee

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Senate Rural and Regional Affairs and Transport References Committee

Inquiry into Tasmanian Forestry Grants Programs

SUBMISSION

Australian National Audit Office

8 April 2013

Background and context

1. In 2005, the then Government implemented its 2004 election policy commitment to preserve high-conservation forests from logging and provide investment assistance to ensure the continued viability of forest and forest-related industries. Under the Tasmanian Community Forestry Agreement, the then Government provided funding for a range of activities including the following three industry development and assistance programs:
 - 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.
2. The three industry development and assistance programs were jointly managed by the Australian and Tasmanian Governments through the Department of Agriculture, Fisheries and Forestry (DAFF) and the Tasmanian Department of Economic Development. Program guidelines and funding were jointly approved by the then Australian Government Minister for Fisheries, Forestry and Conservation and the then Tasmanian Government Minister for Infrastructure, Energy and Resources. The framework for assessing and recommending applications for funding was outlined in a Memorandum of Understanding between the two governments. An Advisory Committee, supported by an independent assessor and the DAFF Secretariat, assessed the applications and provided recommendations to the Ministers.¹ DAFF's administration of these programs was examined in ANAO Performance Audit Report No. 26 2007–08, *Tasmanian Forest Industry Development and Assistance Programs* (Report No. 26 2007–08).
3. Since 2008, there has been a downturn in Tasmania's forest and wood products industries driven by a range of factors, including the global financial crisis and the appreciation of the Australian dollar. Employment has fallen by 50 per cent as market demand has changed and processing facilities closed.
4. In 2010, representatives of Tasmania's forest industry, unions and non-government environmental organisations presented the Australian and Tasmanian Governments with their agreed approach to: resolve conflict over Tasmania's forests; protect native forests; and develop a strong, sustainable timber industry. The approach was documented in the Tasmanian Forests Statement of Principles to lead to an Agreement (Statement of Principles).² Following a period of discussion, the Australian and Tasmanian governments signed the *Tasmanian Forests Intergovernmental Agreement*

¹ The assessment and decision making framework for the industry assistance and development programs is shown in Figure 4.1, p. 61 of Report No. 26 2007–08.

² The Statement of Principles was presented to the Tasmanian Government on 18 October 2010 and to the Australian Government on 22 November 2010.

which committed \$277 million³ in funding over 15 years to: support workers, contractors and communities; protecting high conservation forests and ensure sustainable wood supply; and fund projects that support regional economic diversification.

5. One of the measures outlined in the IGA was designed to provide up to \$45 million for voluntarily exits from the public native forests operations for harvest, haulage and silvicultural contractors. The Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit Grants Program (IGACEP) guidelines which established the framework for assessing and recommending applications for grant funding through a competitive, merit-based assessment process, were negotiated by the Australian Government Minister for Agriculture, Fisheries and Forestry and the Tasmanian Government and approved by the Australian Government Minister for Finance and Deregulation. An Advisory Panel, with assistance from a financial assessor and the DAFF Secretariat, assessed applications and made recommendations to the delegated decision-maker (a senior DAFF officer). DAFF's administration of the IGACEP was examined in ANAO Performance Audit Report No. 22 2012–13, *Administration of the Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit Grants Program* (Report No. 22 2012–13).

Other grant assistance programs delivered to the Tasmanian forestry industry

6. Since 2005, Tasmania's forest industry has been the focus of several Australian Government funded grant programs that have been delivered by DAFF and/or the Tasmanian Government including:
 - in 2010–11, the:
 - Tasmanian Forest Contractors Exit Assistance Program (TFCEP), administered by DAFF, which provided up to \$17 million in grant funding to reduce business overcapacity by exiting eligible businesses from the Tasmanian native forest harvest and haulage contracting sector. Under the TFCEP, 29 successful applicants received grant funding totalling \$16.9 million, with payments ranging from \$143 681.64 to \$750 000; and
 - Tasmanian Forest Contractors Financial Support Program (TFCFSP), delivered by the Tasmanian Government, which provided up to \$5.4 million to assist Tasmanian harvest and/or haulage forest contractors operating predominately in the native forest to continue their operations. Under the TFCFSP, 53 successful applicants received grant funding totalling \$5.37 million; and
 - in September 2012, the Tasmanian and Australian Governments agreed to implement the \$15 million Tasmanian Native Forest High Quality Sawlog Contract Voluntary Buyback Program to enable sawmillers that hold contracts for high quality sawlogs with Forestry Tasmania to voluntarily surrender all or part of their minimum contracted volume. Applications have now closed for this program. However, payments to successful parties are contingent on the passing of the *Tasmanian Forests Agreement Bill 2012* and the associated protection order by the Tasmanian Parliament. As at 8 April 2013, the Bill had not been passed.

³ It was agreed within the IGA that total funding contributions will include \$261.5 million from the Australian Government and \$15.5 million from the Tasmanian Government.

7. The ANAO's two performance audits do not represent a complete coverage of the grant assistance programs that have been delivered to Tasmania's forestry industry over this period.

Changes to the framework for grants administration

8. Since Report No. 26 2007–08 was tabled, the Government has taken steps to improve the transparency and accountability of grants administration at a whole-of-government level. The Government's expectations for all Australian Government agencies that are subject to the *Financial Management and Accountability Act 1997* (the FMA Act), and their officials when performing duties in relation to grants administration, have been established through Finance Minister's Instructions (December 2007 and January 2009) and the subsequent release of the *Commonwealth Grant Guidelines: Policies and Principles for Grants Administration* (CGGs) in 2009.
9. Agency staff involved in grants administration must ensure that they behave in accordance with the law, government policy, agency rules and with applicable funding agreements. Policy requirements relating to grants administration include the CGGs, applicable policy and legislation of the Commonwealth, the guidelines applying to the granting activity and grants-specific process requirements decided from time-to-time by the Australian Government.

Key findings from each audit

Tasmanian Forest Industry Development and Assistance Programs

10. DAFF effectively promoted the industry development and assistance programs to potential applicants within the industry through its awareness raising activities and promotional material (paragraph 30). The Program Guidelines, developed in consultation with the Tasmanian Government and industry stakeholder groups (paragraph 31), provided general information about the programs, but did not outline key information, such as, the relative importance of appraisal criteria (paragraphs 32–34).
11. As of 30 November 2007, 184 applications had been received for the three programs. Of these 184: 88 applications with total grant funding of \$42.9 million were approved with individual grants ranging from \$5000 to \$7.9 million; six applications were assessed as ineligible; four were rejected due to the financial status of the applicants; 56 applications were still to be processed; 18 were withdrawn and 12 applications had been resubmitted under another TCFA program (paragraph 14).
12. Although program guidelines and a sound framework for assessing and approving applications were developed (paragraph 15), not all processes and procedures were followed by the department when assessing and recommending applications to the Ministers for funding (paragraph 16). Further, the transparency of the assessment process was reduced by the lack of documentation to support the Advisory Committee's assessments of applications and reasons justifying their decisions (paragraph 17). In addition, there were instances where recommendations for approval did not advise the Ministers that the assessment was incomplete or the scope of assessment had been restricted (paragraph 18).
13. Funding deeds signed with successful applicants did not always protect the Commonwealth's interests and there were inconsistencies and errors within the deeds (paragraph 19). Further, inconsistencies between the body and schedules of the deeds made due dates for key monitoring and reporting documents unclear and outstanding

reports and evidence were not followed up to properly acquit the grants (paragraphs 5.22 and 5.35).

14. The audit report also highlighted weaknesses in the department's reporting of program performance. Although the department had established outcome indicators for the program, it had not publicly reported against all indicators for the program (paragraph 21), therefore, limiting Parliament's information regarding the achievements of the program.
15. The ANAO made three recommendations to improve the administration of the programs, and also to encourage DAFF to reinforce to those administering programs the importance of adhering to existing departmental requirements (paragraph 23).

Administration of the Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit Grants Program

16. Potential applicants were appropriately informed of the opportunity to apply for an IGACEP grant and were provided with timely access to the program guidelines and additional guidance material. To support program delivery, the department established detailed administrative arrangements to process applications and grant payments (paragraph 20).
17. A single application round was conducted, with DAFF receiving 102 applications for grant funding. Four applications were not assessed as they were considered to have been lodged after the deadline and the remaining 98 applications were assessed for eligibility by the Advisory Panel (paragraphs 30–31). In total, 62 applications (61 applicants) were assessed as eligible by the panel (paragraph 31). However, the ANAO's analysis indicated that 10 applicants, who were subsequently offered grant funding, did not provide the required documentation to demonstrate that the IGACEP eligibility requirements had been met. The basis for the assessment of eligibility where applicants had not provided the required documentation was not clearly recorded by the department (paragraph 22).
18. All 62 eligible applications were scored and ranked against the merit criteria with scores ranging between 92.56 and zero (paragraph 36). All 62 eligible applications progressed to the second stage of the assessment process. However, instead of assessing applications against the assessment criteria outlined in the program guidelines, which were to be the basis for recommending a funding offer to the applicant that was lower than the applicant's nominated amount⁴, the panel used a funding cap of \$35 per tonne to wood harvested or hauled to assess value for money. The basis on which the value of the cap was determined as representing value for money for the Australian Government was not documented by the panel (paragraph 38). DAFF's adoption of assessment practices that were outside the published program guidelines, in the absence of advice to applicants, ultimately reduced the transparency and accountability of the assessment process.
19. The Advisory Panel recommended the delegated decision maker approve all eligible applicants, irrespective of merit scores. By offering 25 eligible applicants a lower funding amount than requested, the total recommended grant funding of \$44 019 623 was within the funding envelope of \$44.2 million (paragraph 39). Based on advice from the Advisory Panel, the decision maker approved all 62 applications (61 applicants) for grant funding. Individual grants ranged from \$20 000 to \$3 million (paragraphs 18 and 19).

⁴ *Tasmanian Forests Intergovernmental Agreement Contractors Voluntary Exit grants Program: Grant Program Guidelines*, October 2011, p.7.

20. Despite committing the total program budget, the expectation (outlined in the program objective) that the wood being harvested and hauled that would be exited from the industry would be in the order of 1.5 million tonnes was not achieved. The decision maker was advised that, based on verified actual tonnage for 2009–10, the 61 grants offered would remove 865 628 tonnes of harvest wood and 973 713 tonnes of haulage wood. In total, 58 businesses accepted the offer of funding to exit from the Tasmanian public native forest sector. The department has estimated that the exit of these businesses will reduce wood being harvested by 819 888 tonnes and wood being hauled by 972 831 tonnes.⁵
21. In response to the ANAO's previous audits and better practice guidance⁶ and the 2009 release of the CGGs, DAFF developed a Grants Management Manual to support departmental program managers. However, in the case of the IGACEP, the department did not follow some key requirements established in the Grants Management Manual (and the CGGs), particularly in relation to the:
- establishment of sound governance arrangements before releasing the program guidelines and draft funding deed⁷;
 - documentation of important aspects of the assessment process⁸; and
 - development of measures to assess and report on program performance.⁹
22. The ANAO made three recommendations that were directed towards improving DAFF's grants administration practices by reinforcing the importance of: documenting all elements of the assessment process; informing applicants of significant changes to assessment processes and the methods used to determine grant funding offers outlined in the program guidelines; and preparing compliance strategies early in the design phase of grants programs.

⁵ DAFF's 'on the record' statement published on the department's website uses an alternate measure—contracted tonnage—to support its claims that the program objective was met. In the audit report, the ANAO references the advice provided by the department and the Advisory Panel to the IGACEP decision maker.

⁶ In particular, ANAO, *Better Practice Guide—Implementing Better Practice Grants Administration*, June 2010, Canberra and ANAO, *Better Practice Guide—Implementation of Programme and Policy Initiatives*, October 2006, Canberra.

⁷ The CGGs indicate that agency planning processes should have proper regard to all relevant issues including the need to undertake risk management. Refer to: Australian Government Department of Finance and Deregulation, Australian Government Department of Finance and Deregulation, *Commonwealth Grant Guidelines: Policies and Principles for Grants Administration*, July 2009, Canberra, p.15.

⁸ DAFF's Grants Guidance Manual advises program managers that, for the assessment process to be fully documented, the decisions and rationale leading to each decision and the basis of approval for each recommended grant are to be clearly recorded.

⁹ The CGGs indicate that a granting activity should have a performance framework that links an agency's strategic directions and the grant's operational objectives to government outcomes. Refer to: Australian Government Department of Finance and Deregulation, op.cit., p.17.