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Joint Committee of Public Accounts and Audit
Inquiry into Commonwealth grants administration

3 March 2023

1. Good morning Chair and Committee members.
2. Thank you for the opportunity to appear before the committee today as part of the inquiry into Commonwealth grants administration.
3. Grants is a significant public sector activity. GrantConnect¹ provides centralised publication of Australian Government grant opportunities and awards. Reporting on GrantConnect was mandated from 31 December 2017 for all non-corporate Commonwealth entities. It is also mandated for corporate Commonwealth entities where a Minister is involved in the decision making. As at 8 February 2023, GrantConnect showed that \$30.94 billion of grants, including variations, were awarded in 2021–22.
4. Given the size of this activity, grants is one of the key activities on which the ANAO undertakes performance audits. When auditing in this area, the ANAO focuses its work on the public sector's administration of grants, the sector's support to decision-makers and compliance with the grants framework. Over the period 2017–18 to 2021–22 the ANAO has undertaken seventeen performance audits on grants, representing eight per cent of all audits tabled in that period. In this period, 25 per cent of these audits had an adverse or a partially effective conclusion and the remaining 50 per cent were largely effective. There were no unqualified conclusions in audits of grants administration in that five year period.
5. In addition to performance audits of this activity, the ANAO has produced an information report² to provide transparency of, and insights on, government grants expense and Australian Government entities' self-reporting of grants on GrantConnect. An information report is not an audit or assurance review report and does not present a conclusion, findings or recommendations.

¹ www.grants.gov.au

² Auditor-General Report No.7 of 2021–22, *Australian Government Grants Reporting*

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6. The primary data used for this report was based on information self-reported by entities on GrantConnect between 31 December 2017 and 30 June 2021. The key information outlined in the report includes:
- 108,206 grant awards were published on GrantConnect with a start date between 31 December 2017 and 30 June 2021. These were published by 31 non-corporate Commonwealth entities and two corporate Commonwealth entities with a total value of \$60.2 billion.
 - The value of grant awards is highest for the grant categories of ageing (\$11.9 billion, 20 per cent); health, wellbeing and medical research (\$10.4 billion, 18 per cent); and Indigenous (\$8.6 billion, 14 per cent). The categories of 'Ageing', 'Children, Youth and Youth at Risk' and 'Disaster Relief' received the most grants by number.
 - 19 per cent of total grant funding was made through variations to the initial award.
 - By value, most grants (forty-two per cent) were awarded through a closed non-competitive selection process. However, ad hoc/one-off grants were the most numerous (twenty-four per cent).
 - Twelve per cent of grants selected through an open competitive selection process were approved before the closing date of their associated grant opportunities.
 - Of the 39,127 grant awards linked to an opportunity, 7705 (20 per cent) had a reported selection process that was different to what was reported for their related opportunities.
 - Twenty-seven per cent of regional development grants funding reported in GrantConnect were delivered to postcodes classified as 'Major cities of Australia' based on the Australian Statistical Geography Standard 2016 data from the Australian Bureau of Statistics.

The Commonwealth grants framework

7. The framework governing the administration of Commonwealth grants is provided by the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and articulated in the *Commonwealth Grants Rules and Guidelines* (CGRGs). The grants policy framework is largely principles-based, with prescriptive rules and mandatory requirements kept to a minimum.

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8. Over a decade on from their introduction, the CGRGs remain largely the same³ and this area of government administration remains subject to Parliamentary interest and scrutiny, with ANAO audits showing that there is often a focus on compliance with only the small number of mandatory requirements listed in the framework rather than seeking to achieve the overarching principles. The ANAO's recent work in this space indicates that the framework has fallen short of its original objective and that there would be merit in the Parliament and Australian Government revisiting the framework.
9. Against this background, the ANAO has outlined in its submission to this inquiry some key issues and suggestions for the Committee to consider as part of its inquiry into Commonwealth grants administration. The key matters highlighted in the ANAO submission are:
 - the low use of open and competitive grant selection processes compared with other less competitive mechanisms;
 - grant opportunity guidelines not accurately conveying the application and assessment processes adopted;
 - the application of processes not set out in the published grant opportunity guidelines;
 - the building of high levels of flexibility into guidelines such that the use of documented specific criteria can be made less relevant through clauses allowing broad discretion;
 - the omission of important information from the guidelines such as identifying all stakeholders, including parliamentarians and their staff, who will play a role in the assessment and award of grant funding; and
 - shortcomings in the advice provided to decision-makers, poor record-keeping and inconsistent approaches to reporting overturns to the Finance Minister.

Possible changes to the Commonwealth Grants Rules and Guidelines

10. The ANAO's recent experience suggests there remains merit in the effective implementation of the Committee's earlier recommendations in Report 484: *The Administration of Government Grants: Inquiry into Auditor-General's Reports 5, 12 and 23 (2019–20)*. The ANAO also sees benefits in the CGRGs including a clear statement setting out its objective; and detailed

3 While the CGRGs have been updated and reissued from time to time, these updates have not introduced any substantial changes to the structure and principles-based nature of the guidelines. Changes have involved improving readability and clarity of content, as well as realigning the framework in 2014 to the newly introduced PGPA Act. Prior to this, the guidelines were issued under the *Financial Management and Accountability Act 1997*.

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explanation as to why the framework must be applied with full regard to both the requirements and key principles in the context of delivering on the overarching requirements of the PGPA Act.

11. Further suggested changes are explained in context throughout the ANAO's submission and can be summarised as:

- Amending respective sections of the CGRGs from 'should' to 'must' to strengthen the direction to adopt and increase the adoption of competitive, merit-based selection processes.
- Considering the adoption of a similar approach to that taken for the Commonwealth Procurement Rules whereby corporate Commonwealth entities can be prescribed to comply with those rules by the Finance Minister issuing a direction under the PGPA framework.
- Considering the adoption of a similar online reporting approach as that outlined in the NSW Government's Grants Administration Guide.
- Implementation of the ANAO recommendations to the Australian Government as part of Auditor-General Report No.1 2022–23.⁴

Capability

12. ANAO audits have indicated from time to time that the evidence suggests there is a skills gap in the areas of procurement and grants administration. The centralised grants hub model may present an opportunity to enhance the grants administration capability across the sector.

13. We would be happy to answer any questions the Committee may have.

⁴ Auditor-General Report No.1 of 2022–23, *Award of Funding under the Building Better Regions Fund*, pp. 15-16.