Australian Government

Department of Agriculture, Fisheries and Forestry

SECRETARY

Context of the development of the programs

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. While this context significantly influenced how the programs were established and implemented, DAFF considers that the administration arrangements ensured efficient and effective use of the funds allocated to these programs.

In establishing the programs' administration the Department of Agriculture, Fisheries and Forestry (DAFF) considered all relevant departmental guidelines and procedures, including the *Chief Executives Instructions on Grant Management.* However, in the context of these programs as noted above, some aspects of the programs' final administration differ from departmental 'best-practice' guidelines. The best practice guidelines include setting out the method and scale of rating applications as part of assessment. In developing the program guidelines, the Advisory Committee made an explicit decision not to allocate specific weightings to the eligibility criteria or to set funding priorities. The Advisory Committee decided not to indicate that priorities such as adjusting to the changing nature of supply were any more important than investing in value adding or protecting existing jobs and received no further direction from governments. The Committee also determined that it was not meaningful to weight eligibility criteria such as capable business management, contributing to industry competitiveness or to be commercially viable.

The consideration and assessment of applications was in accordance with the MOU and the exchange of letters between both governments. In addition to the agreed process of assessment, DAFF undertook preliminary eligibility assessments, and, in some cases, the Tasmanian Department of Economic Development (DED) undertook preliminary assessments to assist the Advisory Committee in their deliberations.

Assessment of projects

All projects were assessed against the eligibility criteria established for the programs. The majority of projects underwent further assessment by DAFF, DED and/or the independent assessor to facilitate consideration by the Advisory Committee who considered the merits of applications and all assessments undertaken before making their recommendations to Ministers.

Some applicants requesting smaller funding amounts were not referred to the independent assessor if it was considered that the risk to the Commonwealth was low. In some instances the cost of the independent assessment would have exceeded the total value of the grant. In other instances, where the applicant sought funding for equipment already acquired (legitimately under the eligibility guidelines), the Advisory Committee considered a detailed financial assessment unwarranted, as the applicant had already independently fully funded and purchased the asset in question.

DAFF notes the concerns in the Audit Report about the comprehensiveness of the assessment of a major project ($7.9 million). DAFF agrees that the assessment process for this project was different than for other projects, and notes that it reflects the due diligence already undertaken by the Tasmanian Government and the importance of this proposal to the Tasmanian economy. Prior to the announcement of the TFCA in May 2005, the Tasmanian Government conducted a public process to find a joint venture investor to establish two new veneer mills (with a combined investment of over $60 million). This process took several years and involved considerable due diligence, which was well outside the control of the Advisory Committee. Once the Tasmanian Government had completed this process and agreed to enter into long-term wood supply agreements with the selected joint venture partner, the Advisory Committee recommended funding for the second veneer mill (which commenced after May 2005), without a detailed assessment of some aspects of the financial viability of the company. The Advisory Committee was informed about the Tasmanian Government's previous due diligence work and subsequently decided to omit the financial details of the shareholders in the assessment by the independent assessor.

DAFF notes the concerns in the Audit Report regarding the timeliness of the assessment for some applicants. DAFF agrees that there have been delays in the implementation of the programs but suggests these are mostly due to the need for applicants to provide substantive documentation to support their application, the comprehensive assessment process undertaken by the Advisory Committee and the need for successful applicants to fund and acquire the relevant equipment before being eligible to receive any grant funding. The Advisory Committee made an explicit decision at the outset of the program to run a two phase application process. Where applicants were ready to fully apply for funds they could submit a fully formed business case. Where companies had not yet prepared a detailed business case they could submit an expression of interest for funding to confirm their eligibility status. The Advisory Committee did not want to subject companies to the requirement to undertake lengthy, and potentially costly, preliminary work prior to knowing if their applications were eligible. DAFF does not consider that this approach impacted negatively on the assessment process.

DAFF notes the important role of DED in providing advice and assistance to applicants in the preparation of applications for assistance and the ANAO's view that the '…approach caused considerable delay in the processing of many applications…'. It is the view of DAFF that this process actually enhanced the speed of assessment as many small companies (such as country sawmills and contractors) were incapable of preparing satisfactory business cases without assistance.

Recommendations:
DAFF supports all recommendations in the report

Recommendation 1
To effectively report against the outcome performance indicators for the Tasmanian forest industry assistance programs on the Portfolio Budget Statements and the department's project plan, the ANAO recommends that the Department of Agriculture, Fisheries and Forestry:

(a) collect and, where necessary, validate relevant performance data; and

Australian Government

Department of Agriculture, Fisheries and Forestry

(b) *record, analyse and report this data on an ongoing basis.*

Agree with qualification. The department notes the ANAO's findings that current reporting arrangements provide limited information on the administration of the programs. The department agrees that collection and analysis of performance data will assist in reporting against the programs' performance indicators. The department will need to consider on a case-by-case basis the practicality and extent to which performance data can be validated. This finding also highlights the need to better select meaningful performance indicators to better monitor the success of such programs.

Recommendation 2

To better protect the Commonwealth's interest, the ANAO recommends that the Department of Agriculture, Fisheries and Forestry use the current standard funding deed for future projects tailored to incorporate the:

(a) *method by which payments are made; and*

(b) *financial arrangements in place to acquire the assets, other than through outright purchase or leasing.*

Agree. The department notes the ANAO's finding that the current standard funding deed does not account for assets acquired through finance arrangements other than direct ownership or leasing. The department agrees to tailor the standard funding deed to reflect the methods by which payments are made and the applicants' financial arrangements for acquiring the assets.

Recommendation 3

To effectively monitor compliance with the funding deeds, for the Tasmanian forest industry assistance programs, the ANAO recommends that the Department of Agriculture, Fisheries and Forestry:

(a) *develop operational guidelines for the payment of claims, compliance reporting and the acquittal of grants; and*

(b) *clarify reporting requirements and provide guidance to grant recipients.*

Agree. The department notes the ANAO's findings that the department has been focussed on implementing the programs and having proposals assessed and funded. The department accepts that the development of operational guidelines for the payment of claims, compliance reporting and acquittal of grants will improve the administration of the programs. The department also accepts that clarifying the reporting requirements and providing guidance on the format and content of final reports will assist recipients in accurately acquitting their proposals.

Australian Government

Department of Agriculture, Fisheries and Forestry

Summary of DAFF's response to the Audit Report

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.