

## **Efficiency of the Australia Council's Administration of Grants**

Australia Council

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Canberra ACT  
22 August 2017

Dear Mr President  
Dear Mr Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Australia Council titled *Efficiency of the Australia Council's Administration of Grants*. The audit was conducted in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's website—<http://www.anao.gov.au>.

Yours sincerely



Grant Hehir  
Auditor-General

The Honourable the President of the Senate  
The Honourable the Speaker of the House of Representatives  
Parliament House  
Canberra ACT

## AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office (ANAO). The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits, financial statement audits and assurance reviews of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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# Summary and recommendations

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## Background

1. The Australia Council is the Australian Government's arts funding and advisory body.<sup>1</sup> The Australia Council's overarching outcome is to support 'Australian artists and arts organisations to create and present excellent art that is accessed by audiences across Australia and abroad'.<sup>2</sup>
2. The Australia Council delivers arts funding principally through a range of grants programs. In 2015–16, grants programs delivered by the Australia Council included: the Major Performing Arts Program and government initiatives (\$123.2m); and the Australia Council Grants Program (\$50.6 million).<sup>3</sup> Total expenditure on grants programs (\$173.8 million) represented 88 per cent of the Australia Council's total expenses (\$197.6 million) in 2015–16.
3. In administering its Grants Program, the Australia Council is required to use public funds efficiently. This responsibility is explicitly stated in the:
  - *Public Governance, Performance and Accountability Act 2013* (PGPA Act) which requires the accountable authority—in this case, the Board of the Australia Council—to manage and use public resources efficiently<sup>4</sup>; and
  - *Australia Council Act 2013* which requires the Australia Council's Board to ensure the proper and efficient performance of the Australia Council's functions, and the delivery of these through a range of policies and programs, including the provision of grant funding.<sup>5</sup>

## Audit objective and criteria

4. The objective of this audit was to determine whether the Grants Program is being administered efficiently by the Australia Council in relation to suitable comparators. To form a conclusion against the audit objective, the following high level criteria were adopted:
  - How do the costs and other input and output indicators of administering the Grants Program compare against suitable comparable organisations as well as to the Australia Council's previous approach?
  - Does the design, implementation and administration of the Grants Program promote the efficient use of resources?

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1 Australia Council, *Annual Report 2015–16*, p.13.

2 Australia Council, *Portfolio Budget Statements*, 2016–17, p.5.

3 As outlined in paragraph 1.4, the Grants Program includes five separate grants programs: Arts Projects (Individuals and Groups); Arts Projects (Organisations); Career Development Grants for Individuals; Fellowships; and Four Year Funding for Organisations.

4 PGPA Act, paragraph 15(1)(a) and section 8.

5 *Australia Council Act 2013*, sub-section 15(1) and paragraph 10(2)(g).

## Conclusion

5. Benchmarking against comparator entities indicates that the Australia Council could be more efficient in administering the Grants Program.

6. The Australia Council has not established grant administration metrics to support the measurement and benchmarking of its efficiency in administering grant funding—one of the key mechanisms for delivery of its statutory functions—against suitable organisations or its own performance over time. Benchmarking conducted by the ANAO indicates that the efficiency of the Australia Council’s administration of the Grants Program, and its component grants programs, varies across the measures calculated.

7. Consistent with its legislative obligations, the Australia Council has sought to be efficient in its grants administration although, in the absence of an efficiency baseline, measures and trend analysis, it is not clear if the steps taken have improved efficiency. While some elements of the Australia Council’s approach to grants administration reflected a risk-based approach to improving efficiency, the approach adopted was not supported by a more formal risk assessment. Conducting a risk assessment would assist the Australia Council to better align resources to risk and identify opportunities for greater efficiency.

## Supporting findings

### Measuring and comparing efficiency in grants administration

8. The Australia Council has not established metrics to inform itself, the Parliament and the public about how efficient the Australia Council is at distributing arts grants funding.

9. The Australia Council captures data about inputs and outputs but it does not currently use this data to calculate measures of efficiency. The ANAO calculated that—for the period from December 2015 to November 2016—the average cost for the Australia Council to: administer the Grants Program was \$0.04 for each \$1 of grant funding; and to administer each application received was \$1 359.

10. It is unclear if the Australia Council has become more efficient over time. The Australia Council has not measured changes in its efficiency over time, or set a target(s) to work towards. Although it has sought to improve its grants administration efficiency through the redesign of the Grants Program, it is unclear if the Australia Council’s grant administration is more efficient as a result of the changes it has made.

11. The Australia Council does not benchmark the efficiency of its grants administration processes against other organisations. Benchmarking conducted by the ANAO indicates that the Australia Council’s average cost to administer the Grants Program is \$0.01 (33 per cent) above the average cost of the group of comparator entities selected by the ANAO. Results for three of the five programs included in the Grants Program against the efficiency measure (cost to provide \$1 grant funding) were lower than the average cost for the eight non-Australia Council grants programs analysed. For the same measure, the average cost across the five Australia Council programs was 46 per cent higher than the average cost for the eight non-Australia Council grants programs.



## Promoting efficient grants administration

12. The Australia Council has taken steps to promote efficient grants administration. However, the impacts of these changes are unclear as the Australia Council does not assess and measure its efficiency.

13. The Australia Council has not undertaken a risk assessment of its Grants Program to inform its approach to grants administration. There would be benefit in the Australia Council assessing risks more formally and using that assessment to identify opportunities to better target resources.

## Recommendations

**Recommendation no.1** The Australia Council give greater focus to the efficiency of its grants administration by:

### Paragraph 2.35

- (a) establishing suitable measures of efficiency;
- (b) routinely benchmarking its efficiency; and
- (c) evaluating the results from efficiency benchmarking to identify opportunities to improve efficiency.

**Australia Council response:** *Agreed.*

**Recommendation no.2** The Australia Council assess risks at a range of levels across its granting activities and apply a risk-based approach to the assessment of grant applications and management of funding agreements.

### Paragraph 3.28

**Australia Council response:** *Agreed.*

## Summary of entity responses

14. A summary of entity responses are below, with full responses provided at Appendix 1.

### Australia Council

The Australia Council and its Board take their statutory obligations very seriously and are committed to the delivery of accessible, efficient and effective arts funding, including through the Australia Council grants program. The Australia Council welcomes the ANAO audit report on the efficiency of its grants program and agrees in principle to its recommendations.

The Australia Council is pleased that the ANAO audit report acknowledges the significant structural reforms that have been implemented across the Council and its grants program. Throughout the design and implementation of the grants program, the Australia Council and its Board have worked assiduously to achieve high standards of efficiency and effectiveness in the delivery of arts funding. Efficiencies have already been realised through a significant reduction in the number of grants categories, development of streamlined funding criteria and eligibility requirements, and a decrease in staffing levels for the grants program, despite increases in the quantum of grants funds under administration.

The Australia Council notes its view that the ANAO's findings in respect of benchmarking Council's grants administration efficiency against other organisations did not sufficiently acknowledge the lack of data available from relevant comparator organisations to benchmark against. Given that data from relevant comparator organisations was not available for the

ANAO's audit, the Australia Council does not consider that the benchmarking exercise undertaken by the ANAO was an appropriate measure of comparative performance.

The Australia Council is committed to the continuous improvement of its grants administration processes and will continue to consider the ANAO's recommendations as part of Council's ongoing work to improve the delivery of its grants program. The Australia Council notes the Government's recent decision to transfer an additional \$80.2 million over four years to the Australia Council from 2017-18 will enable it to increase the level of investment in the grants program and deliver significant efficiency gains, which are estimated to be approximately 20 per cent for those programs to which additional funds will be applied.

### **Department of Finance**

The Department of Finance supports the finding of this report regarding Australia Council considering the option of sourcing grants administration support and services via the Community and/or Business Grants Hubs.

### **Department of Social Services**

DSS welcomes the finding from the ANAO performance audit report relating to the Department and notes the potential cost savings for the Australia Council if the Community Grants Hub was used to deliver grant funding. DSS would welcome working with the Australia Council in considering accessing grants administration support and services via the Community Grants Hub as part of the Australia Council's planned IT business needs analysis.

### **National Health and Medical Research Council**

NHMRC strongly supports the peer review of grant applications and commends the Australia Council on its commitment to efficient and effective peer review. NHMRC extends its support for the Australia Council as it continues to strengthen and streamline its administration and is more than willing to share our experience with Australia Council.

## **Audit findings**

# 1. Background

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## Introduction

1.1 The Australia Council is the Australian Government's arts funding and advisory body.<sup>6</sup> The Australia Council's overarching outcome is to support 'Australian artists and arts organisations to create and present excellent art that is accessed by audiences across Australia and abroad'.<sup>7</sup>

1.2 The Australia Council delivers arts funding principally through a range of grants programs. In 2015–16, grants programs delivered by the Australia Council included:

- the Major Performing Arts Program—a total of \$107.8 million was provided to 28 companies in the fields of dance, theatre, circus, opera, and orchestral and chamber music under the *National Framework for Governments' Support of the Major Performing Arts Sector*;
- government initiatives—\$15.4 million for the National Regional Programs, Sounds Australia, and the Visual Arts and Craft Strategy; and
- the Australia Council Grants Program—multi-year funding for organisations (\$22.6 million) as well as funding for individual artists and small to medium organisations (\$28.0 million).

1.3 In 2015–16, the Australia Council's total expenditure on grants programs (\$173.8 million) represented 88 per cent of total expenses (\$197.6 million) for that year.

## The Australia Council's Grants Program

1.4 The Australia Council delivers five grants programs (collectively referred to as 'the Grants Program') for which successful applicants are identified through a peer assessment process.<sup>8</sup> These five grants programs are:

- Arts Projects (Individuals and Groups)—grants of \$10 000–\$50 000 for activities that deliver benefits to the arts sector and wider public, including national and international audiences;
- Arts Projects (Organisations)—grants of \$10 000–\$100 000 for activities that deliver benefits to the arts sector and wider public, including national and international audiences;
- Career Development Grants for Individuals—grants ranging from \$5 000–\$25 000;
- Fellowships—grants of up to \$80 000 to support outstanding, established artists' creative activity and professional development for a period of up to two years; and
- Four Year Funding for Organisations—grants of \$75 000–\$300 000 per annum for four years for small to medium arts organisations of significant regional, national or international standing.

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6 Australia Council, *Annual Report 2015–16*, p. 13.

7 Australia Council, *Portfolio Budget Statements*, 2016–17, p. 5.

8 The Australia Council's 'peer assessment principle' establishes that decisions on grants will be made following an assessment by artists, individuals closely associated with the arts and community representatives who are peers of those being assessed. See Australia Council, *Annual Report 2015–16*, p. 13.

1.5 In administering its Grants Program, the Australia Council is required to use public funds efficiently. This responsibility is explicitly stated in the:

- *Public Governance, Performance and Accountability Act 2013* (PGPA Act) which requires the accountable authority—in this case, the Board of the Australia Council—to manage and use public resources efficiently<sup>9</sup>; and
- *Australia Council Act 2013* which requires the Australia Council's Board to ensure the proper and efficient performance of the Australia Council's functions, and the delivery of these through a range of policies and programs, including the provision of grant funding.<sup>10</sup>

### *Introduction of a new grants model*

1.6 The Australia Council's purpose, administration and governance model was reviewed in 2012. The report (*Review of the Australia Council*<sup>11</sup>) included a recommendation that a new model of grant allocation be developed. To address this recommendation, a new Grants Program model was designed and initially implemented in January 2015. Following changes in the Council's operating environment, the Grants Program was subject to significant redesign and commenced operating in its current form in 2016. The new Grants Program model aimed to streamline the Australia Council's approach to grants funding and make funding more accessible for artists by: condensing over 140 grant categories into five categories; simplifying the eligibility and assessment criteria; and involving more peers in the assessment process.<sup>12</sup>

1.7 The new grants management framework has been subject to post-implementation reviews of: the design and operation; all grants administration stages (application to contract execution); and the peer assessment processes. The new Grants Program model was revised to improve efficiency following changes in the Australia Council's operating environment in 2015 (these are discussed further in paragraphs 3.5–3.7).

## Audit approach

### Audit objective and criteria

1.8 The objective of this audit was to determine whether the Grants Program is being administered efficiently by the Australia Council in relation to suitable comparators. To form a conclusion against the audit objective, the following high level criteria were adopted:

- How do the costs and other input and output indicators of administering the Grants Program compare against suitable comparable organisations as well as to the Australia Council's previous approach?
- Does the design, implementation and administration of the Grants Program promote the efficient use of resources?

<sup>9</sup> PGPA Act, paragraph 15(1)(a) and section 8.

<sup>10</sup> *Australia Council Act 2013*, sub-section 15(1) and paragraph (10)(2)(g).

<sup>11</sup> Trainor. G and James. A, *Review of the Australia Council*, May 2012.

<sup>12</sup> The grants program is supported by a large pool of peers, which includes 650 artists, arts workers and industry experts.

## Scope

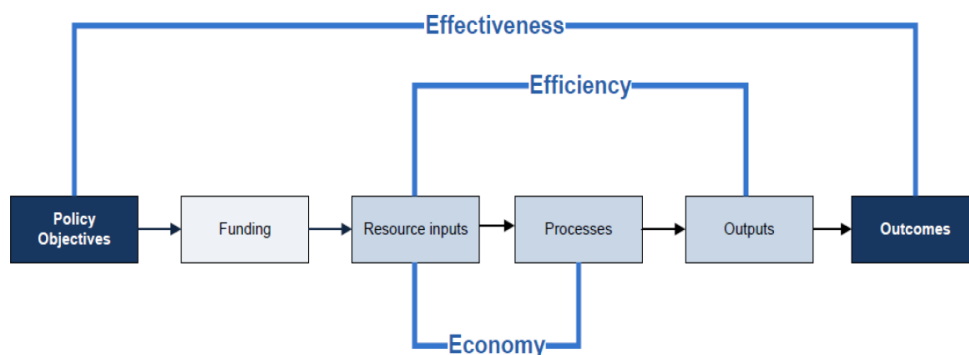
1.9 The ANAO examined the extent to which the Australia Council is administering the Grants Program efficiently including by comparing the Australia Council against entities that undertake similar activities.

1.10 The audit did not examine the Australia Council's administration of other grants and initiatives. Further, the ANAO did not assess the effectiveness of the grants programs in delivering outcomes.

## Audit methodology

1.11 The ANAO's methodology for auditing efficiency is based on a general model for assessing public sector performance (Figure 1.1). Efficiency is defined to mean the use of resources such that output is optimised for any given set of resource inputs, or input is minimised for any given quantity and quality of output.

**Figure 1.1: A general model for assessing public sector performance**



Source: ANAO.<sup>13</sup>

1.12 The methodology recognises that an examination of efficiency needs to be 'fit-for-purpose' for each entity or subject matter being audited. In most cases, this is likely to include:

- identifying the relevant input and outputs, as well as the policy outcome(s) being sought;
- determining appropriate performance measures, drawing on data for inputs and outputs;
- identifying suitable comparators to benchmark against, to identify relative efficiency;
- identifying the key operational processes that are used to transform input into outputs (or outcomes) and the linkages between these elements; and
- undertaking appropriate audit procedures to understand and account for any material differences in the comparison of measured efficiency.

13 Also see Department of Finance, *Resource Management Guide No. 131: Developing good performance information*, Commonwealth of Australia, April 2015, p. 27.

1.13 As part of audit fieldwork, the ANAO:

- examined the Australia Council's records;
- interviewed Australia Council officers;
- identified suitable organisations to compare the Australia Council's grants administration against; and
- examined data and interviewed officers from benchmark organisations.

1.14 The ANAO benchmarked aspects of the Australia Council's grants administration against a number of organisations that undertake similar activities to monitor performance and identify improvement opportunities.<sup>14</sup> Comparators used by the ANAO included Commonwealth entities that conduct grants administration activities and Australian state government arts funding entities.<sup>15</sup> The ANAO also compared the contestability of the Australia Council's grants administration costs against a cost estimate for the provision of grants administration services by an external provider.

1.15 The audit was conducted in accordance with the ANAO Auditing Standards at a cost to the ANAO of approximately \$157 000.

1.16 The team members for this audit were Sally Ramsey, Brian Boyd and Vincents – Assurance & Risk Advisory.

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14 Evidence of efficiency can be provided through benchmarking that makes comparisons across similar activities. A benchmark is typically applied to a group of activities that are considered similar enough in terms of means and ends to justify direct comparison. See: Department of Finance, *Resource Management Guide No. 131: Developing good performance information*, Commonwealth of Australia, April 2015, pp. 35 and 47.

15 Entities used by the ANAO as comparators are outlined in Table 2.2, p 23.

## 2. Measuring and comparing efficiency in grants administration

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### Areas examined

The ANAO examined whether the Australia Council has established grants administration metrics to measure and benchmark its efficiency against suitable organisations, or its own performance over time.

### Conclusion

The Australia Council has not established grant administration metrics to support the measurement and benchmarking of its efficiency in administering grant funding—one of the key mechanisms for delivery of its statutory functions—against suitable organisations or its own performance over time. Benchmarking conducted by the ANAO indicates that the efficiency of the Australia Council's administration of the Grants Program, and its component grants programs, varies across the measures calculated.

### Areas for improvement

The ANAO made one recommendation aimed at improving the Australia Council's administration through the establishment of efficiency measures that can be used to track and benchmark efficiency.

The ANAO also identified that there would be merit in the Australia Council undertaking further benchmarking to identify, and assess the impact of, cost drivers on the achievement of outcomes and reviewing its targeting of efforts to improve efficiency.

### Has the Australia Council established grants administration efficiency metrics?

The Australia Council has not established metrics to inform itself, the Parliament and the public about how efficient the Australia Council is at distributing arts grants funding.

2.1 The Australia Council has not developed metrics to measure and report on how efficient it is at distributing arts grants funding.<sup>16</sup> As the provision of grant funding is the principal activity through which the Australia Council seeks to achieve its overall outcome, including some measures of efficiency in its reporting would:

- provide the Board of the Australia Council (the accountable authority) with management information to inform decisions on whether, and where, further efforts to improve efficiency may be required;

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16 The 2012 *Review of the Australia Council* found that while the Australia Council had done a good job of reducing and maintaining a low ratio of administration costs to grants delivered, continued focus was needed in this area and encouraged the Australia Council to undertake regular efficiency reviews to further reduce the administrative costs of operation. See: Trainor, G and James, A, *Review of the Australia Council*, May 2012, p. 24.



- assist the Board to demonstrate that its obligation under the *Australia Council Act 2013*—to ensure the proper and efficient performance of the Australia Council’s functions<sup>17</sup>—is being met; and
- provide a richer performance story<sup>18</sup> to the Parliament and other stakeholders.

2.2 In considering appropriate performance information, the Australia Council should have regard to the guidance material provided by the Department of Finance on the enhanced performance reporting framework. In particular, Finance has provided guidance material on developing good performance information, and this includes advice on developing efficiency measures, as well as input and output measures.<sup>19</sup>

## Can efficiency measures be calculated from the Australia Council’s data?

The Australia Council captures data about inputs and outputs but it does not currently use this data to calculate measures of efficiency. The ANAO calculated that—for the period from December 2015 to November 2016—the average cost for the Australia Council to: administer the Grants Program was \$0.04 for each \$1 of grant funding; and to administer each application received was \$1 359.

2.3 The Australia Council had not previously undertaken an analysis of the costs of administering the Grants Program. For the purposes of this audit, the Australia Council prepared a grants administration costing for the period from December 2015 to November 2016. The Australia Council’s costing data was sufficiently granular to support an analysis of efficiency for the Grants Program: at the aggregate level; at the individual grants program level; and for all activities within the grant management life cycle.

2.4 In the absence of the Australia Council identifying its own efficiency measures, the ANAO has selected two measures that could be calculated from the data available to provide insight into what influences efficiency in relation to the Australia Council’s administration of the Grants Program.<sup>20</sup> These measures are the:

- administrative cost of providing \$1 of grant funding; and
- administrative cost per application received (to assess the application and for the ongoing management of successful applications).

17 Sub-section 15(1) of the *Australia Council Act 2013*.

18 Department of Finance, *Resource Management Guide No. 131: Developing good performance information*, Commonwealth of Australia, April 2015, p. 46.

19 Department of Finance, *Resource Management Guide No. 131: Developing good performance information*, Commonwealth of Australia, April 2015. Refer to Part 3 ‘Identifying what performance information is needed’. Available at <http://www.finance.gov.au> [accessed 10 June 2017].

20 There are many other measures that the Australia Council could use to provide insights into efficiency. These two measures were part of a group of measures used by the National Audit Office to support an analysis of the costs of grant-making for eight grants programs in 2006–07. Refer to: National Audit Office, *Making grants efficiently in the culture, media and sport sector*, United Kingdom, 22 May 2008. Available at <https://www.nao.org.uk/report/making-grants-efficiently-in-the-culture-media-and-sport-sector> [accessed 13 June 2017].

2.5 Box 1 outlines key factors identified by the ANAO for assessing the efficiency of grants administration at the Australia Council.

**Box 1: Key factors for assessing the efficiency of grants administration at the Australia Council**

For grants administration, there are various measures that can be used to determine efficiency. For the purposes of this performance audit, the ANAO has identified that the total input costs and approved funding amounts can be used to provide insights and information on the extent to which grants administration activities are conducted efficiently. In this context, inputs, outputs, outcomes and cost drivers have been identified as:

- **Inputs**—in this analysis, costs were used as a proxy for actual inputs such as staff time and were considered across all activities in the grant management lifecycle. Costs associated with the administration of grants programs included:
  - staff costs (salaries, leave and superannuation for staff directly related to grants administration activities);
  - peer costs (payments for sitting fees);
  - other expenses including contractors and consultants;
  - grant system development and maintenance; and
  - overheads (including building and leases, general system development and maintenance costs, human resources, and utilities). The overhead costs were apportioned based on staffing levels, which vary according to the number of grant applications received in each individual grants program.
- **Outputs**—the number of grant applications processed, the number of grants provided, and the amount of approved grant funding.
- **Outcomes**—the delivery of grant funding supports the Australia Council to achieve its overall outcome (that is, ‘to support Australian artists and arts organisations to create and present excellent art that is accessed by audiences across Australia and abroad’).
- **Cost drivers** (factors that drive input costs)—relate to the number of grant applications received, the design of the grants model (for example, the use of peers to assess all applications) and the number of funding rounds released.

2.6 Analysis against the two measures selected by the ANAO is based on the following Australia Council data (as outlined in Table 2.1), the:

- results of funding rounds, including the number of applications received and approved grant funding; and
- costs of administration such as, overheads, costs associated with staffing—such as salaries, leave and superannuation—and the costs associated with the peer assessment of applications for grants funding.

**Table 2.1: Selected results and costs for the Grants Program (December 2015 to November 2016)**

| Grants Program                       | Approved grants funding | Number of applications (received) | Total cost of administration | Costs of administration |                     |                    |
|--------------------------------------|-------------------------|-----------------------------------|------------------------------|-------------------------|---------------------|--------------------|
|                                      |                         |                                   |                              | Overheads               | Peer reviewer costs | Staff costs        |
| Arts Projects—Individuals and Groups | \$9 499 602             | 2 135                             | \$2 627 877                  | \$1 405 196             | \$346 977           | \$875 705          |
| Arts Projects—Organisations          | \$10 123 111            | 1 010                             | \$1 357 611                  | \$664 997               | \$239 170           | \$453 444          |
| Career Development Grants            | \$2 133 596             | 846                               | \$1 096 111                  | \$553 355               | \$182 674           | \$360 083          |
| Fellowships                          | \$640 000               | 48                                | \$97 574                     | \$39 034                | \$27 795            | \$30 745           |
| Four Year Funding for Organisations  | \$112 728 772           | 266                               | \$670 780                    | \$219 531               | \$212 159           | \$239 090          |
| <b>Total</b>                         | <b>\$135 125 081</b>    | <b>4 305</b>                      | <b>\$5 849 954</b>           | <b>\$2 882 112</b>      | <b>\$1 008 775</b>  | <b>\$1 959 067</b> |

Source: ANAO analysis of Australia Council data.

### Administrative cost of providing \$1 of grant funding

2.7 The administrative cost of providing each \$1 of grant funding considers the amount of grant funding awarded as the key output of grants administration. This measure is calculated by dividing total costs of administration (costs as a proxy for actual inputs) by the total approved grant funding amount.

2.8 For the period December 2015 to November 2016, the cost to administer the Grants Program was \$0.04 for each \$1 of grant funding. For the same period, the cost to administer each of the five grants programs varied from \$0.01 to \$0.51 for each \$1 of grant funding provided (see Figure 2.1).

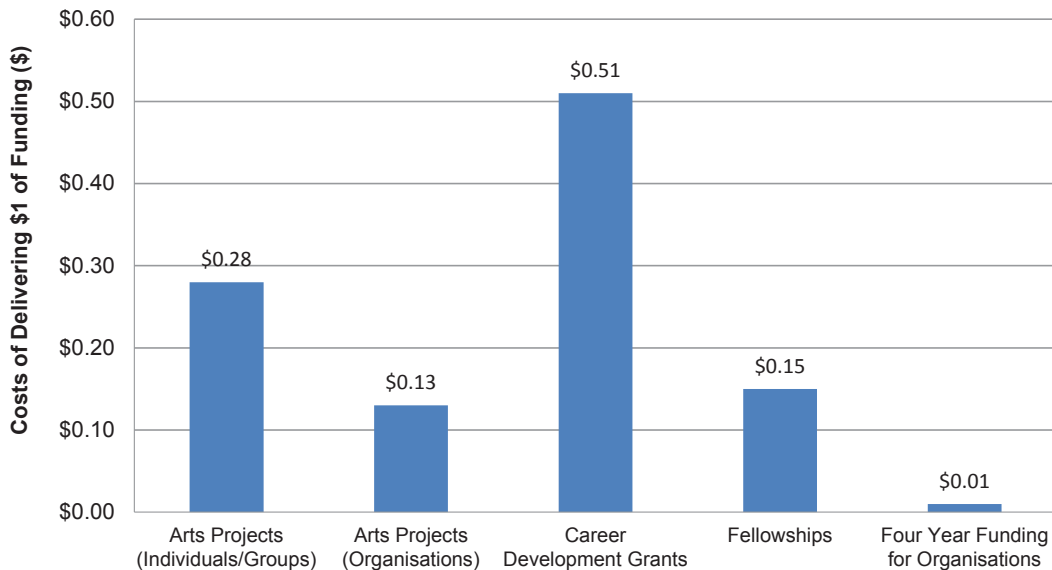
2.9 Based on this measure, efficiency indicators vary across the five grants programs for the period covered by the costing. For example, the administration of the Four Year Funding for Organisations (\$0.01) costs the Australia Council significantly less per \$1 of grant funding than the administration of the Career Development Grants (\$0.51). The cost drivers affecting the results for this measure were the quantum of funding and the number of applications.<sup>21</sup> Relative to the other grant programs, the:

- Four Year Funding for Organisations program had a high quantum of approved funding and a low number of applications; and
- Career Development Grants program had a small quantum of approved funding and a high number of applications.

21 There may be other cost drivers. The data available did not support a more detailed assessment of cost drivers.

2.10 The Four Year Funding for Organisations data strongly influences the Grants Program’s cost to administer each \$1 of grant funding. For example, removing the Four Year Funding for Organisations program from the Australia Council’s Grants Program data set results in an increase in the cost of administering \$1 of grant funding from \$0.04 to \$0.23.

**Figure 2.1: Administrative cost of providing \$1 of grants funding December 2015 to November 2016**



Source: ANAO analysis of Australia Council costing data.

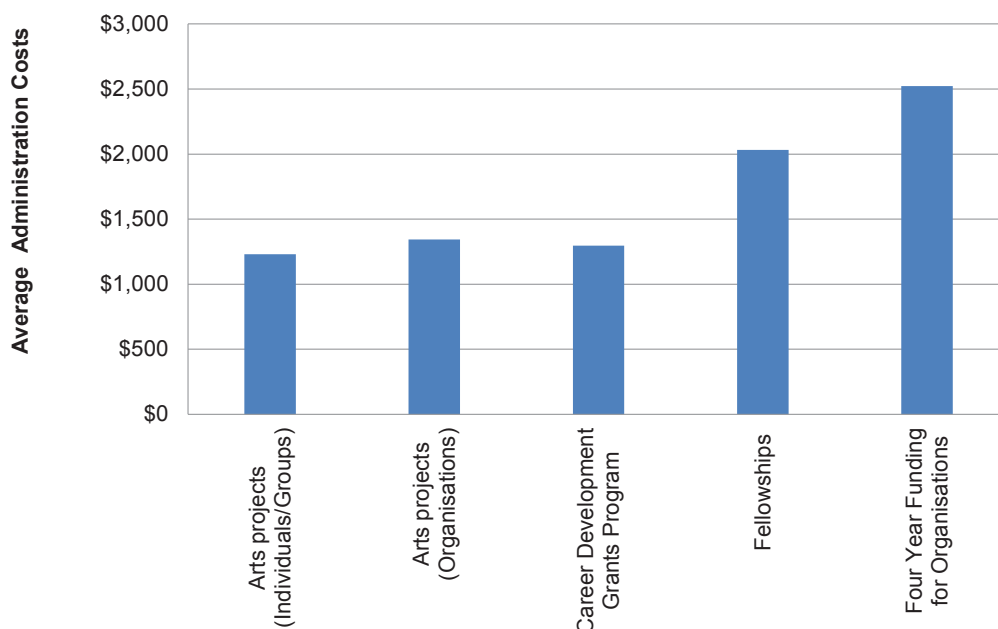
2.11 The variability of administrative cost associated with providing each \$1 of grant funding across the five grants programs may indicate that there are opportunities to improve efficiency at this level. Better alignment between the number of applications received and quantum of funding available would result in efficiency improvements against this measure. Managing the number of applications through demand controls is discussed further in paragraphs 2.32–2.34.

### Average cost of administration per application received

2.12 The average cost of administration for each application received focuses on the accessibility of funding opportunities. For this measure, the number of applications received is a proxy for the output. This is a useful measure for the Australia Council as it is seeking to make its grant funding widely accessible through the new grants model. This measure was calculated by dividing the total cost of administration by the number of applications received which provides insights into how the resource intensiveness of the assessment process varies between grant categories.

2.13 For the period from December 2015 to November 2016, each application the Australia Council received cost, on average, \$1 359 to administer. For the five grants programs, the cost per application varied between \$1 231 and \$2 522 (as outlined in Figure 2.2).

**Figure 2.2: Average cost of administration per application received December 2015 to November 2016**



Source: ANAO analysis of Australia Council costing data.

2.14 The average cost of administration was higher for programs that received a low number of applications. This indicates that fixed costs may have a significant influence on the result. Implementing activities to reduce fixed costs (such as overheads) would assist to improve the efficiency of all grants programs operated by the Australia Council, not just the Grants Program.

### Has the Australia Council become more efficient over time?

It is unclear if the Australia Council has become more efficient over time. The Australia Council has not measured changes in its efficiency over time, or set a target(s) to work towards. Although it has sought to improve its grants administration efficiency through the redesign of the Grants Program, it is unclear if the Australia Council's grant administration is more efficient as a result of the changes it has made.

2.15 Comparing current performance to past performance is one way of examining efficiency, including monitoring the impact of efforts to improve efficiency. To examine efficiency over time an entity must identify its starting point, and then assess changes over time through trend analysis.

2.16 As previously discussed, the Australia Council introduced a new Grants Program model in 2015 with the aim of being more flexible and responsive to the needs of the arts sector. In its *2014–15 Annual Report*<sup>22</sup>, the Australia Council reported the implementation of the grants model

22 Australia Council, *2014–15 Annual Report*, p. 8.

was ‘supported by a revised organisational structure and efficient new business processes implemented throughout 2014–15’. Changes to the grants model were intended to deliver a consistent and efficient approach to grant-making which would improve the Australia Council’s ability to use available resources effectively and integrate new programs into existing processes.

2.17 The Australia Council identified the following benefits with a potential impact on the efficiency of the Australia Council’s Grants Program administration:

- consistent assessment criteria, resulting in time savings for peers due to a greater understanding of the grant requirements; and
- reduced internal complexity and having a fit-for-purpose corporate structure, resulting in the reduction of inputs (staff costs) for the Australia Council.

2.18 As part of the implementation of the new Grants Program, the Australia Council’s Board and management monitored and reviewed the ‘outcomes’ of funding rounds including: approved grants funding; the number of applications received; the number of successful applications; and other ‘fundable’ applications. Matters monitored and reviewed by the Board also include the applicants’ geographic details<sup>23</sup>, success rates by State and Territory, the tracking of first time applicants and the number of unsuccessful applicants requesting feedback.

2.19 The Board’s monitoring and review arrangements have not provided sufficient focus on the extent to which the implementation of the Grants Program has improved grants administration efficiency—a key responsibility of the Board. For example, the project plan for the implementation of the Grants Program did not identify baseline data, a measurement framework or efficiency targets. Without baseline data and analysis against targets, it is unclear whether the new grants model has resulted in efficiency improvements as the Australia Council intended.

## **Does the Australia Council benchmark the efficiency of its grants administration processes against other relevant organisations?**

The Australia Council does not benchmark the efficiency of its grants administration processes against other organisations. Benchmarking conducted by the ANAO indicates that the Australia Council’s average cost to administer the Grants Program is \$0.01 (33 per cent) above the average cost of the group of comparator entities selected by the ANAO. Results for three of the five programs included in the Grants Program against the efficiency measure (cost to provide \$1 grant funding) were lower than the average cost for the eight non-Australia Council grants programs analysed. For the same measure, the average cost across the five Australia Council programs was 46 per cent higher than the average cost for the eight non-Australia Council grants programs.

2.20 The Australia Council has not benchmarked its grant administration processes against the grant administration processes of other entities. In the absence of Council benchmarking activities, the ANAO has benchmarked the Australia Council’s grants administration against a number of organisations that administer grants.

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23 The Australia Council’s annual reports provide details of where grant funding goes to by location: regional/metropolitan, State/Territory and nationally/internationally.

2.21 External benchmark data that draws together data from a range of entities with relevant characteristics provides a point of comparison to assess the relative efficiency of the Australia Council's Grants Program. There is no single Commonwealth entity that is an exact match to the Australia Council's grants administration approach, but grants programs are a common approach used to achieve Commonwealth and state government policy objectives, working in partnership with recipient individuals and organisations. On this basis, the ANAO identified a group of Commonwealth entities that conduct grants administration (as outlined in Table 2.2) and obtained costing data. In recognition of the Australia Council's peer assessment based grant model, the ANAO included in the group of comparators the:

- National Health and Medical Research Council—as its grant assessment process also involved peer assessments; and
- Western Australia Department of Local Government, Sport and Cultural Industries (which includes a division called Culture and the Arts WA<sup>24</sup>)—as it provides grants to the arts sector and uses a peer assessment based grant assessment model.<sup>25</sup>

**Table 2.2: Entities identified as suitable comparators to benchmark the efficiency of the Australia Council's grant administration processes**

| Entities   | Purpose   | Costing data used  |
|--|---|--|
| National Health and Medical Research Council (NHMRC) | The NHMRC provides grant funding to support health and medical research.          | Data used had been prepared by the NHMRC for its own benchmarking activities. The data related to the NHMRC's 2014–15 grant rounds (including the number of applications received, the number of successful applications, and funding approved) and expenses from the 2014–15 financial accounts, with the overheads apportioned based on average staffing levels over the key activities. |
| 11 Commonwealth government departments <sup>a</sup>  | Deliver a range of grants programs to achieve Commonwealth government objectives. | Data was obtained from the Streamlining Government Grants Administration (SGGA) Program baseline costing exercise. For this exercise, the full 2014–15 costs (direct and indirect costs, including overheads) of administering grants that were in scope of the Commonwealth Grants Rules and Guidelines were collected from 11 participating departments.                                 |

<sup>24</sup> Formerly known as the Western Australia Department of Culture and the Arts.

<sup>25</sup> The Australia Council associates its model for grants administration (particularly with regard to its use of peer assessors) most closely with the Canada Council for the Arts. For future efficiency benchmarking activities, the Australia Council may wish to compare its cost efficiency with the Canada Council for the Arts as well comparing its cost efficiency against other grant administrators within the Australian public sector. The ANAO approached the Canada Council, but it declined to be involved as a benchmarking entity for this audit on the basis that it had not yet fully developed its methodology for determining program delivery costs.

| Entities  | Purpose  | Costing data used   |
|---|--|---|
| Western Australia Department of Local Government, Sport and Cultural Industries (Culture and the Arts WA) | Culture and the Arts WA aims to foster the cultural development of Western Australia through the provision of quality services and funding programs. Culture and the Arts WA applies a peer assessment based grant assessment model. | Data used had been prepared by Culture and the Arts WA for its own benchmarking activities. The data was based on the period March 2016 to February 2017. <sup>b</sup> Data included: the number of applications received; the number of successful applications; funding approved; and expenses from the financial accounts, with the overheads apportioned against the average staffing levels over the key activities. |

Note a: These 11 departments, along with an additional two government departments, are participants in the Streamlining Government Grants Administration Program (the SGGA Program). The SGGA Program is discussed further in paragraphs 3.20–3.22.

Note b: Culture and the Arts WA's new grants program came into effect on 1 March 2017.

Source: ANAO summary of the entities' advice.

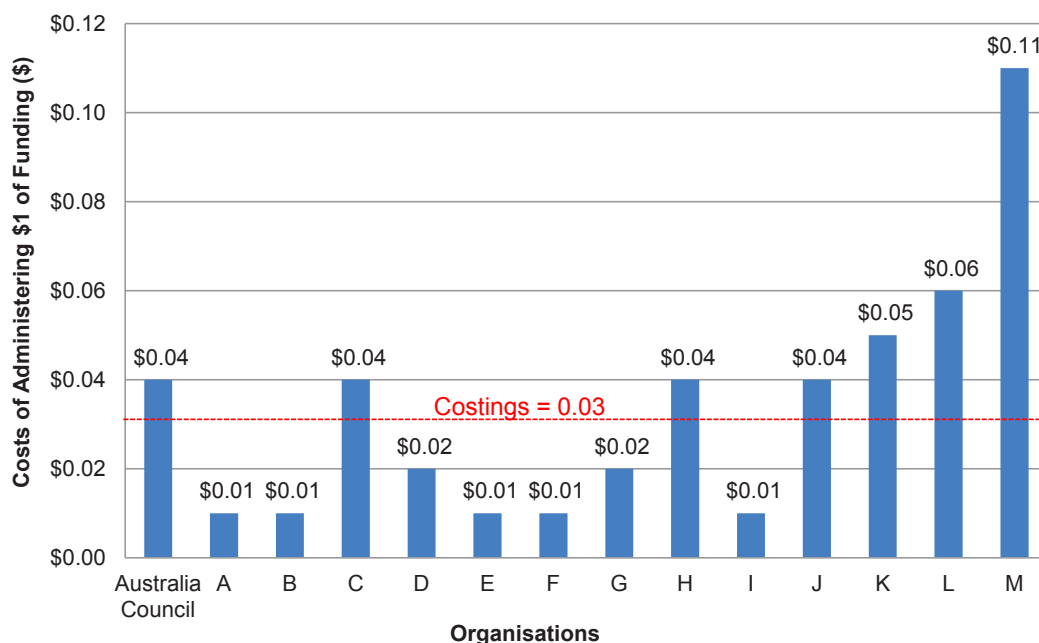
2.22 Based on the data available, the Australia Council's efficiency in administering the Grants Program and the five individual grants programs could be benchmarked against the comparator entities using one measure—the cost of providing \$1 of grant funding. Benchmarking would provide more useful information about the Australia Council's efficiency in terms of the costs of administering grants programs if: a range of qualitative and quantitative metrics were compared; and the process was repeated periodically.

### Comparing entities average cost of providing \$1 of grant funding

2.23 Across the group of comparator organisations, the cost of providing \$1 of grant funding ranged from \$0.01 to \$0.11 with the average cost being \$0.03 (as shown in Figure 2.3). As previously discussed in paragraph 2.8, the Australia Council's cost of providing \$1 of grant funding was \$0.04 for the Grants Program.



**Figure 2.3: Comparison of the Australia Council grants administration costs (for the Grants Program) against other organisations**



Source: ANAO analysis of costing data.

2.24 This analysis indicates that, on the basis of the cost to administer \$1 of grant funding, the Australia Council was relatively less efficient than the average population of grants administrators as its overall ratio was \$0.01 higher (33 per cent) than the average across the comparators. The Australia Council's result was within the range of costs across the group (\$0.01 to \$0.11). For the period from December 2015 to November 2016, a \$0.01 reduction in administration cost per \$1 of grant funding provided by the Australia Council represented \$1.35 million that could otherwise be provided as grant funding.

2.25 When compared to the other entities, the Australia Council's overhead costs were relatively high against the direct staffing costs applied to each grants program. On average, the Australia Council's overhead costs contributed 47 per cent of the total costs to administer a grants program.<sup>26</sup> Further, peer assessment costs ranged from 13–32 per cent of the total costs to administer an individual grants program. There would be merit in the Australia Council examining its major costs (including overheads and peers assessment costs) and looking for opportunities to drive efficiency.

2.26 Using cost as a proxy for actual inputs suggests that cutting costs is the key to improving efficiency. There is a balance to be struck though, between cutting costs and achieving quality

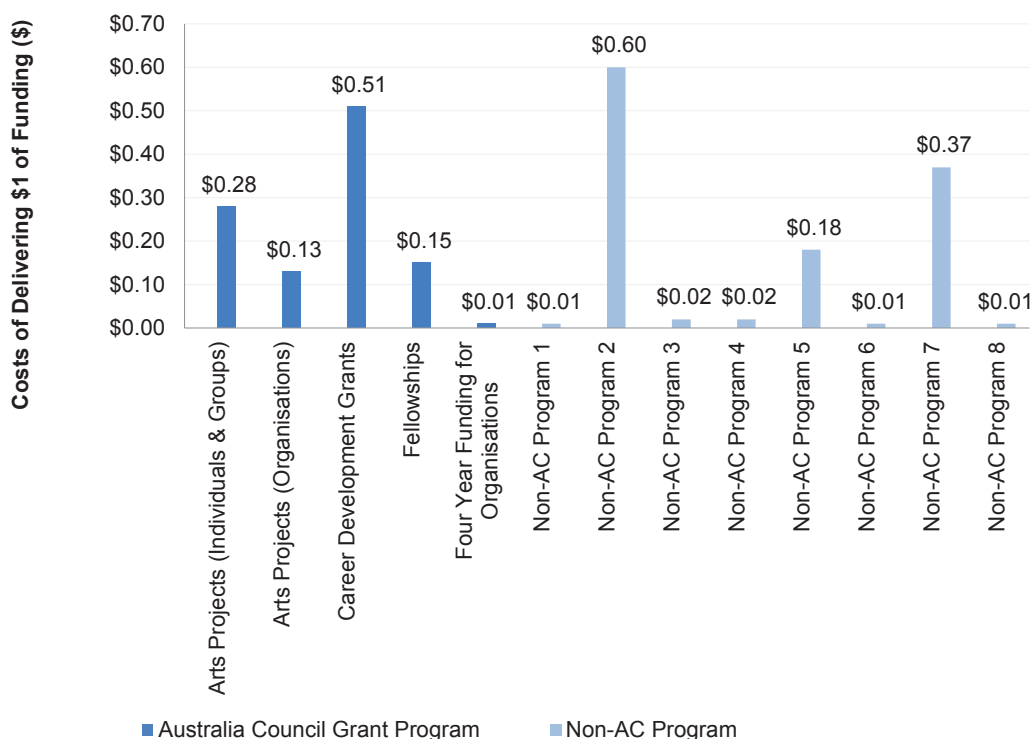
<sup>26</sup> The 2012 *Review of the Australia Council* suggested that the Australia Council costs compared less favourably with other grant giving bodies in Australia (Australian Research Council, National Health and Medical Research Council) that use a competitive peer assessed approach to funding as it administers smaller grant sizes to organisations which require a higher degree of reporting and compliance.

outcomes and other important goals. For example, applying a high proportion of total costs to assessment reflects the importance of the grant selection process to identify those applications that will provide the greatest value with public money in the context of the objectives of the granting activity. To better identify cost drivers (such as risk, complexity, phase in the grants administration lifecycle) and assess their impact on costs and the achievement of outcomes, there would be merit in the Australia Council undertaking further benchmarking against comparators and against its own performance over time.

### Comparing cost of providing \$1 of grant funding for individual programs

2.27 Program level data was available from comparator entities for eight individual programs. The cost of providing \$1 of grant funding for each of the Australia Council's five grant programs was compared against the average costs for those eight programs (as shown in Figure 2.4).

**Figure 2.4: Comparison of administration costs of the five Australia Council grants programs and individual grants programs from other organisations**



Source: ANAO analysis of costing data.

2.28 Based on the data in Figure 2.4, the average cost to provide \$1 of grant funding for: a non-Australia Council program was \$0.15; and an Australia Council program was \$0.22 (46 per cent higher), which suggests that the Australia Council could administer grants more efficiently.

2.29 In terms of the individual grants programs, the cost to provide \$1 of grant funding for:

- three of the Australia Council's five grants programs was lower than the non-Australia Council programs' average cost; and
- two of the Australia Council's five grants programs was higher than the non-Australia Council programs' average cost. In each case, the small quantum of funds available and a large number of applications were contributing factors. Specifically:
  - for the Career Development grants program, a relevant factor is the small quantum of funding awarded (\$2.133 million being awarded but with an average of 282 applications received in each funding round for the last three rounds); and
  - there was a high number of applications for the Australia Council's Arts Projects—Individuals and Groups grants program (2135 applications received in a year).

2.30 Further work by the Australia Council is necessary to develop a clearer picture of the efficiency of the Australia Council's programs as there are limitations to this type of benchmarking analysis, including the:

- data represents a single period in time. It is not clear if the data collected from any of the entities is 'typical' of the programs delivered. A better understanding of the Australia Council's efficiency would be apparent from periodic analysis of costing data and benchmarking activity;
- different costing frameworks applied by organisations;
- amount of grant funding awarded. This varies considerably across entities, as well as within the Australia Council; and
- analysis does not consider the different activities, complexities and grants programs undertaken across the entities.

## Managing demand

2.31 A key objective of the Australia Council's revised Grants Program was to make grant funding accessible to a more diverse range of artists and organisations. The Australia Council advised, in its *2014–15 Annual Report*, of an 'unprecedented' response to the new model with over 2 200 applications received, including from a significant number of new applicants to the Australia Council.<sup>27</sup>

2.32 The number of applications received by the Australia Council is a key cost driver in administering the Grants Program. The relative impact of the quantum of funds versus the number of applications received was clear in relation to the administrative costs per \$1 of grant funding (discussed in paragraph 2.11). For example, a lower number of applications relative to the quantum of funding positively influenced the result. In terms of the quality of applications received, the Australia Council's records indicate that only a very small number of applications

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27 Australia Council, *2014–15 Annual Report*, p. 8. In its 2015–16 Annual Report, the Australia Council reported that 20 per cent of the successful grants in the new grants model were from first time applicants.

were ineligible (0.5 per cent since the March 2015 funding rounds), while a larger percentage were assessed as 'not fundable'.<sup>28</sup>

2.33 To try to reduce the large number of applications that are 'not fundable' within the Four Year Funding for Organisations program, the Australia Council has introduced a staged expression of interest process to minimise the number of low quality applications received and thereby reduce the assessment burden on the Australia Council. As shown in Figure 2.4, the Four Year Funding for Organisations program is already the most efficient program within the Grants Program. On this basis, there would be merit in targeting efforts to improve efficiency towards other programs.

2.34 In addition, the Australia Council advised the ANAO that it implemented a pre-application questionnaire in May 2017. The questionnaire is expected to assist potential applicants to better understand the eligibility requirements to reduce: the time officers spend on enquiries; and the number of 'unfundable' and 'ineligible' applications. The Council advised the ANAO that 82 per cent of applicants used the questionnaire, with the overwhelming majority directed to a suitable grants category and a small number referred to speak with a grants officer. In addition, 22 per cent terminated the questionnaire before completion. While the Australia Council aims to make funding more accessible for artists, further analysis of this category of applicants would be beneficial to determine if additional actions can be taken to manage demand as efficiently as possible within the available funding.

### Recommendation no.1

2.35 The Australia Council give greater focus to the efficiency of its grants administration by:

- (a) establishing suitable measures of efficiency;
- (b) routinely benchmarking its efficiency; and
- (c) evaluating the results from efficiency benchmarking to identify opportunities to improve efficiency.

**Entity response:** *Agreed.*

2.36 The Australia Council is committed to the continuous improvement of the grants program and its monitoring and evaluation, and will take steps to develop and implement metrics to measure and report on the efficiency of our grants administration in this context, including through benchmarking against suitable comparators as well as Council's past performance. Council will work with suitable comparators internationally and nationally to identify, develop and evaluate appropriate efficiency benchmarks and measures.

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28 'Not fundable' indicates that the application was deemed eligible but was not as meritorious against published criteria and in competition as the other applications considered for funding.

### 3. Promoting efficient grants administration

#### Areas examined

The ANAO examined whether the Australia Council's design, implementation and administration of the Grants Program promotes the efficient use of resources.

#### Conclusion

Consistent with its legislative obligations, the Australia Council has sought to be efficient in its grants administration although, in the absence of an efficiency baseline, measures and trend analysis, it is not clear if the steps taken have improved efficiency. While some elements of the Australia Council's approach to grants administration reflected a risk-based approach to improving efficiency, the approach adopted was not supported by a more formal risk assessment. Conducting a risk assessment would assist the Australia Council to better align resources to risk and identify opportunities for greater efficiency.

#### Area for improvement

The ANAO made one recommendation aimed at assisting the Australia Council to better align the model for assessing grant applications and managing funding agreements with risk.

The ANAO also identified that there would be merit in the Australia Council considering the option of sourcing grants administration support and services via a grants hub.

### Has the Australia Council taken steps to promote efficient grants administration?

The Australia Council has taken steps to promote efficient grants administration. However, the impacts of these changes are unclear as the Australia Council does not assess and measure its efficiency.

3.1 Through the introduction of the new grants model, the Australia Council has sought to introduce a consistent, adaptable and efficient approach to grant-making. The Australia Council has also sought to promote efficient grants administration by establishing systems and processes to support its grants administration more broadly.

#### Introduction of the new model for the Grants Program

3.2 In response to the 2012 *Review of the Australia Council*<sup>29</sup>, the Australia Council restructured the model underpinning its Grants Program to:

- simplify the suite of grants programs to be more easily understood and accessible to artists;
- strengthen the diversity and breadth of peers involved in the assessment process to better reflect and respond to contemporary Australian artistic practice;
- increase transparency, improve fairness for applicants and improve the Australia Council's ability to evaluate the impact of their grant-giving; and

29 Previously discussed in paragraph 1.6.

- introduce a consistent, adaptable and efficient approach to grant-making across the Australia Council to use resources more effectively and to integrate new programs into existing processes.

3.3 The key changes made to the model underpinning the Australia Council's Grants Program are outlined in Table 3.1.

**Table 3.1: Key changes made to the model underpinning the Australia Council's Grants Program**

| Former model   | New model  |
|--|--|
| <ul style="list-style-type: none"> <li>• More than 150 grants programs.</li> </ul>   | <ul style="list-style-type: none"> <li>• Five categories of grants programs.</li> </ul>  |
| <ul style="list-style-type: none"> <li>• Over 300 different assessment criteria.</li> </ul>  | <ul style="list-style-type: none"> <li>• A common set of assessment criteria.</li> </ul>   |
| <ul style="list-style-type: none"> <li>• A range of eligibility criteria applied.</li> </ul>   | <ul style="list-style-type: none"> <li>• A generic set of eligibility criteria.</li> </ul>   |
| <ul style="list-style-type: none"> <li>• Artists working in one art form could not apply for the same funding opportunities as those working in another. Each grants program required its own application form.</li> </ul> | <ul style="list-style-type: none"> <li>• A single application covers multiple stages of the creative process.</li> </ul>   |
| <ul style="list-style-type: none"> <li>• Closing dates fall on 51 different days of the year.</li> </ul>   | <ul style="list-style-type: none"> <li>• Fewer core funding rounds a year.</li> </ul>  |
| <ul style="list-style-type: none"> <li>• Assessment models include: Art Form Boards appointed by the Minister; committees appointed by Council and assessment panels selected by staff.</li> </ul>                         | <ul style="list-style-type: none"> <li>• Assessment process is supported by a large pool of expert peers, which includes 650 artists, arts workers and industry experts.</li> <li>• Applicants are able to select the art form panel they are to be assessed by, including a new panel of multi-art form peers.</li> </ul> |
| <ul style="list-style-type: none"> <li>• No minimum amounts for funding levels for some grant categories.</li> </ul>   | <ul style="list-style-type: none"> <li>• Minimum and maximum funding levels are applied for funding requests across the grant categories.</li> </ul>   |

Source: ANAO analysis of Australia Council information.

3.4 In line with the introduction of the new grants model, the Australia Council undertook a change program and restructure. This included centralising the grants administration team.

#### *Revising the grants model to reduce costs following the May 2015 budget*

3.5 As part of the May 2015 Budget, the Government announced that \$110.0 million (over four years) was to be redirected from the Australia Council to the Ministry for the Arts in the Attorney-General's Department. The Ministry for the Arts was to: establish a *National Programme for Excellence in the Arts*<sup>30</sup>; operate the *Visions of Australia* and *Festivals Australia* programmes and the *Major Festivals* Initiative that had been transferred to it; and continue Creative Partnerships Australia's matched funding programme for a further three years.

3.6 The redirection of funds was in addition to a budget measure for the *Arts and Cultural Program—efficiencies* of \$7.2 million over four years to 2018–19 and the reduction of \$6 million over three years to 2017–18 for the establishment of the Book Council.

30 In November 2015, the Government announced a return of funding amounting to \$8 million a year for the following four years to the Australia Council.

3.7 In response to these budget reductions, the Australia Council took a number of steps to reduce its costs including :

- revising the grant guidelines. From 1 September 2015, any successful applicant could not submit an application for funding in the subsequent round;
- reducing the maximum funding provided. Maximum funding under Arts Projects—Organisations program was reduced from \$150 000 to \$100 000 and maximum funding under the Fellowships program was reduced from \$100 000 to \$80 000;
- reducing the duration of funding for Arts Projects—Organisations and Arts Projects—Individuals and Groups programs from three to two years;
- reducing funding for organisations from six-year funding blocks to four-year funding blocks, introducing a funding cap (\$300 000 in grant funding per year) and restricting successful companies from accessing organisational project funding; and
- reducing the frequency of project grant rounds from four rounds to three rounds per year.

3.8 As the Australia Council has not previously prepared detailed costings, it was not able to assess and measure the impact of these changes or the impact of the new grants model on its efficiency. As a result, it is not clear whether these actions had the intended impact on the Australia Council's efficiency. Some steps, such as reducing the duration of funding, may actually reduce efficiency if the output is negatively impacted as a result.

### **Systems and processes supporting grants administration**

3.9 The Australia Council has established systems and processes to support its grant administration including:

- IT systems across the entire grant administration process (application, decision making, and management of funding agreements); and
- guidance material to support officers and peer assessors to undertake their roles.

#### *The use of IT systems*

3.10 The Australia Council uses IT systems to reduce staff time used for data entry and processing tasks. For example:

- applications are submitted online (99 per cent of grant applications are submitted online);
- grant recipients acquit funding online (96 per cent of acquittals are performed online);
- notification emails are generated automatically and emailed to grant applicants/recipients at different stages of the grant process<sup>31</sup>;
- grant funding agreements and peers' contracts are generated and accepted; and
- peer assessors access applications and materials, and submit their application scores through an online portal.

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31 In 2014–15, the Australia Council generated 39 841 notifications and emails.

3.11 In February 2017, the Australia Council approached the market to engage skills to conduct an IT business needs analysis, to support the development and implementation of its IT Plan. The Australia Council identified that there are challenges associated with the iterative development of the IT systems used to support grants administration.

3.12 Since 2014–15, the Australia Government has pursued a number of specific efficiency measures, including the Streamlined Government Grants Administration (SGGA) Program. The SGGA program aims to deliver consistent and efficient grants administration across Government, through two grants administration hubs. In this context there would be merit in the Australia Council considering the option of sourcing grants administration support and services via the hubs rather than maintaining its own system. The grants hubs are discussed further in paragraphs 3.20–3.22.

3.13 In addition, the Australia Council aims to improve its efficiency by automating the process for grant recipients and peer assessors to create and submit invoices to the Australia Council for payment.<sup>32</sup> At present the process to make payments involves grant recipients and peers issuing their own bespoke invoices prior to payment. These must be entered into the payments system manually. By automating this process, the Australia Council aims to: avoid peer assessors or grant recipients submitting hard-copy/incorrect invoices to the Australia Council for processing of payments; reduce staff time involved in the coordination and processing of invoices (including data entry); and reduce regulatory burden on the peers and grant recipients relating to the presentation of invoices.

3.14 The Australia Council advised the ANAO in August 2017 that it finalised implementation of automating the process for grant recipients and peer assessors to create and submit invoices for payment in July 2017 and that the final cost of the automation process was \$24 400. Automation is expected to deliver an incremental estimated cost saving of \$28 500 per annum from 2017–18.

#### *Procedural documentation*

3.15 The Australia Council's Grants Division has developed procedures, roadmaps, checklists, handbooks and induction material to assist and guide staff and relevant peer assessors through the grant process. Guidance material was generally up-to-date, covered the span of grants processes and was accessible from the Australia Council's records management system or their online system for peer material.

3.16 At the time of audit fieldwork, the Australia Council had identified two opportunities to improve procedural documentation and was taking steps to address both matters. The matters identified were:

- (a) an April 2016 internal audit conducted by the Australia Council had identified that there was guidance across all steps in the process but there was not a single end-to-end procedural document in relation to key activities of the Peer Services team. There is merit in establishing such a document as the absence of easy-to-follow key procedural documentation has the potential to increase costs, for example, when new staff commence; and
- (b) procedural documentation for the management of Four Year Funding for Organisations funding agreements had been established and was being refined to incorporate the roles

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32 Payment conditions must be met before payments can be made.



of staff involved with the process. Clarification of the guidance around operational activities would assist in minimising the Australia Council's input costs if new staff commenced managing these funding agreements.

### *Reductions in grant administration staff numbers*

3.17 Through its use of systems and processes to support its grant administration, the Australia Council has reduced its staff numbers. Between 2012–13 and 2016–17, grants staffing numbers fell from 52 full-time equivalents to 29 full-time equivalents (44 per cent). This has reduced the Australia Council's grants staffing costs by nearly half.

3.18 The reduction in staff numbers has resulted in surplus of office space (an overhead cost) under the existing lease arrangement. Based on analysis performed by the Australia Council, in the best case scenario leasing all the surplus space out until the lease expires in 2019 has the potential to reduce lease costs by \$506 343, of which savings of \$158 296 would flow through to the administration costs of the Grants Program.

3.19 Reductions in administration costs (staff time and lease costs) positively influence measures of the Australia Council's grants administration efficiency, if outputs are not reduced. It is not clear if output quality has been impacted (positively or negatively) over the same period by the adjustments the Australia Council has made to reduce costs following the May 2015 Budget or through automation of process and the availability of guidance material.

### **Opportunities to test the market**

3.20 An example of an entity demonstrating ways to improve efficiency is to explore opportunities in the market for the provision of grants administration services. A new option available to public sector grant administrators is the Community Grant Hub (the Hub) which has been established as part of the government's Streamlining Government Grants Administration (SGGA) Program.<sup>33</sup> The Program's objective is to introduce a simpler, more consistent and cost-efficient grants administration process across government.

3.21 The Hub is operated by the Department of Social Services (DSS) and offers information for grant applicants and recipients about grants opportunities, products and policies.<sup>34</sup> Under an arrangement with the Hub, the client agency retains policy control for its grants program(s) while DSS provides grants administration services to the client. Currently, thirteen Commonwealth agencies are participating in this arrangement.

3.22 The Australia Council has not considered the option of engaging with the Hub for grants administration services. DSS provided indicative costs<sup>35</sup> to the ANAO for the provision of grants administration services for the Australia Council's Arts Projects—Organisations and Arts Projects—Individuals and Groups programs through the Hub.

33 The SGGA Program was announced in the 2015–16 Budget under the Digital Transformation Agenda. The Department of Finance is responsible for the governance of the SGGA Program.

34 In addition, the Department of Industry, Innovation and Science operates the Business Grants Hub.

35 The indicative costs included costs for establishing the programs on the Hub systems, the pre-assessment of applications and the establishment and ongoing management of funding agreements. This costing did not include the peer assessment process as it was deemed that this activity would be retained by the Australia Council.

3.23 Based on the indicative costs provided, the ANAO identified potential cost savings for the Australia Council if the Hub was used to deliver grant funding. On this basis, there would be merit in the Australia Council considering accessing grants administration support and services via the Hub as part of the Australia Council's planned IT business needs analysis.<sup>36</sup>

### Has the Australia Council applied a risk-based approach to grants administration?

The Australia Council has not undertaken a risk assessment of its Grants Program to inform its approach to grants administration. There would be benefit in the Australia Council assessing risks more formally and using that assessment to identify opportunities to better target resources.

3.24 The proportionality principle in grants administration involves striking an appropriate balance between the complexity of the granting activity, including the ongoing requirements for the grant recipients, and effective management of the risks for beneficiaries and the Commonwealth.<sup>37</sup> Not only does a risk-based approach help protect an organisation from the realisation of an identified risk, it can also reduce input costs by aligning administrative requirements with the assessed level of risk.

3.25 In relation to the Grants Program, the Australia Council advised that a risk assessment had not been performed.<sup>38</sup> Potential risks or contentious issues are to be identified for each funded project through the peer assessment process and reported to the Australia Council's Executive (on an exception basis). However, this information is not recorded in the Grant Management System (GMS) to ensure staff awareness or to inform an assessment of recurrent risks. This situation has the potential to increase input costs if staff time is not being directed to activities that are rated as higher in risk.

3.26 There was evidence of a risk-based approach being applied in some aspects of the Australia Council's design of its grants administration framework. For example, the Australia Council tailored acquittal and reporting requirements depending on the value of the grant provided. While the Australia Council is not required to meet the *Commonwealth Grant Rules and Guidelines* (CGRGs), there would be benefits in the Australia Council undertaking a more formal risk assessment to inform a risk-based approach to its administration of grants. A formal risk assessment would assist the Australia Council to identify key risks to the Grants Program and

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36 IT system redevelopment was discussed previously in paragraph 3.11.

37 Refer to section 9.1 of CGRGs. Section 9.3 of CGRGs also states that 'officials should use the proportionality principle to inform the choice of the application and selection process, the grant agreement to be used and the reporting and acquittal requirements. Officials should tailor grant guidelines, application processes, grant agreements accountability, and reporting requirements based on the potential risks and specific circumstances. In doing this, officials should consider: an assessment of the capability of grant recipients; the policy outcomes being sought; the purpose, value and duration of a grant; the nature and type of deliverables; governance; accountability requirements; and the nature and level of the risks involved.'

38 The Australia Council does have a whole-of-Council risk framework in place.

establish mitigation strategies through the grant management procedures and guidelines.<sup>39</sup> Application of the proportionality principle to the design of the Grants Program may offer opportunities for cost-savings.

3.27 Case Study 1 outlines how the proportionality principle might be implemented in the Grants Program in relation to the peer assessment process.

#### Case study 1. Potential application of proportionality principles to the peer assessment process in the Grants Program

Peer assessment is a key element of the Australia Council's process, with decisions on grants made following an assessment by artists, individuals closely associated with the arts, and community representatives who are peers of those being assessed. The Australia Council advised that the peer assessors score individual applications against criterion such as the artistic merit and viability of proposals.<sup>40</sup> The scores determine whether the application is considered to be fundable or otherwise.

The 2012 *Review of the Australia Council* sought to maintain the centrality of peer assessment whilst also promoting flexibility and breadth by adapting the model employed by the Canada Council for the Arts that allows for more peers to become involved in assessment and thereby diversifying the mix of peers.

The *Australia Council Act 2013* updated the Australia Council's functions, powers and governance model and enabled the Australia Council to develop a new peer assessment structure, which was implemented in May 2014. The new structure allows peers to be engaged and to form panels specifically for each grant assessment round. This is intended to provide greater diversity and breadth of peer representation, and support the use of panels that can more effectively respond to multidisciplinary and hybrid art-form applications.

An estimated 17 per cent of total grants administration costs are spent on peers. The main costs associated with the peer assessment process are sitting fees and travel costs for peers to attend assessment panel meetings. By program, travel costs for peers to attend panel assessment meetings relating to the Grants Program range from 39–52 per cent of total peer costs. There are also additional costs relating to staff costs for the Peer Services team, who manage the peer assessment process.

Across the comparator entities, the ANAO made the following observations:

- Culture and the Arts WA, and Creative New Zealand use a peer assessment process in their selection of grants but to reduce costs and gain efficiencies, staff assess applications for grants of a lower value. There may be scope for the Australia Council to revisit the design of peer assessment process and reduce the involvement of peers for certain groups of applications, such as grants of lower value<sup>41</sup>; and

39 The CGRGs outline that risk identification and engagement should be built into an entity's grants administration processes as part of the planning and design of grants programs, and that grants administration processes should be proportional to the scale and risk profile of the granting activity.

40 For example, for the Arts Projects—Individuals program and the Arts Projects—Organisations program: the level of experimentation and risk taking involved in the work may be considered under the artistic merit criterion; the relevance and timeliness of the proposed activity may be considered under the viability criterion; and the skills and artistic ability of the people involved and their relevance to the proposed activity.

41 In 2015–16, the Australia Council, approved 705 grants for amounts of less than \$50 000 for the Arts Projects and Community Development Grants programs.

- National Health and Medical Research Council (NHMRC) is developing technology to streamline and strengthen the administration of its peer review and reporting of the impact of research funding. In addition, the NHMRC has implemented a video conferencing capability which they have found has increased the flexibility and efficiency of staging meetings, including peer review panels. There may be merit in the Australia Council engaging with the NHMRC to leverage off their experience to streamline its travel costs and strengthen its peer review capability.

## Recommendation no.2

3.28 The Australia Council assess risks at a range of levels across its granting activities and apply a risk-based approach to the assessment of grant applications and management of funding agreements.

**Entity response:** *Agreed.*

3.29 The Australia Council has a detailed and sophisticated risk management policy framework and plan and is committed to the continuous improvement of risk assessment processes across the organisation, including within its grants program. Consistent with its peer assessment and deliberative-decision making assessment framework, the Australia Council will consider where the application of risk proportionality principles may be strengthened within its grants administration process.

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Grant Hehir  
Auditor-General

Canberra ACT  
22 August 2017

## **Appendices**

## Appendix 1 Entity responses



1 August 2017

Mr Andrew Morris  
Acting Group Executive Director  
Performance Audit  
Australian National Audit Office

Dear Mr Morris,

Thank you for your letter dated 5 July 2017 seeking comments from the Australia Council on the proposed audit report 'Efficiency of the Australia Council's Administration of Grants' ('the Report'). We appreciate the ANAO's engagement with the Australia Council in finalising the Report.

The Australia Council is the Australian Government's principal arts funding and advisory body. The Council's purpose is to champion and invest in Australian arts and we do this by supporting excellence across all art forms and leveraging our investment in the arts to support and build a vibrant arts ecology. Within the context of Council's broader statutory obligations, the Australia Council grants program was designed to deliver accessible, streamlined and efficient arts funding, and was introduced in 2015 as part of a significant structural reform to implement the recommendations of the *Review of the Australia Council* (2012). Due to changes in the Council's operating environment, the implementation of the new funding model was finalised in 2016.

The Australia Council is pleased that the Report acknowledges that Council and its Board have taken steps to promote efficient grants administration which will assist in realising its overarching outcome of "supporting Australian artists and arts organisations to create and present excellent art that is accessed by audiences across Australia and abroad". Throughout the design and implementation of the grants program, the Australia Council and its Board have worked assiduously to achieve high standards of efficiency and effectiveness in the delivery of arts funding and implemented a range of measures to strengthen the efficiency of grants administration. Efficiencies have been realised through a significant reduction in the number of grants categories, development of streamlined funding criteria and eligibility requirements, a decrease in staffing levels for the grants program, which have reduced by over 40% despite an increase in the quantum of grants funds under administration from \$42.2 million (2012-13) to \$44.4 million (2015-16), and a more efficient Board schedule.

The Australia Council notes the ANAO audit was limited in scope to the efficiency of the grants program. While the Australia Council and its Board regard efficiency as a critical measure of the effectiveness of the grants program, it remains just one of a suite of objectives which must be balanced in the delivery of Commonwealth arts funding. Critical to the effectiveness of the grants program is the delivery of arts funding at arm's length from government, with assessment undertaken by expert artistic peers. Accordingly, in delivery of the grants program, the Australia Council is required to balance the efficiency of grants administration with its other statutory obligations.

In this context, the Australia Council notes its assessment that the grants program has been successful in delivering Council's core statutory functions, including supporting the excellence and diversity of Australian arts, promoting the development of markets and audiences for the arts, fostering community participation in the arts, and promoting freedom of artistic expression. Increased access was achieved in the program's first year, with 20% of the successful grant recipients being first time applicants.

1

While the Australia Council agrees in principle to the recommendations of the ANAO audit report, Council does not fully accept the findings of the ANAO pertaining to benchmarking Council's grants administration efficiency against other organisations. The Australia Council considers that the ANAO's findings did not sufficiently acknowledge the lack of data available from relevant comparator organisations to benchmark against. In the Australia Council's view, a comparable organisation would need to be a central arts funding and grants management organisation from another developed country, such as the Canada Council for the Arts, and others that operate a peer assessment process. Given that relevant data from such organisations was not available for the ANAO's audit, the Australia Council does not consider that the benchmarking exercise undertaken by the ANAO was an appropriate measure of comparative performance. The Australia Council intends to establish strategic partnerships with appropriate national and international partners to routinely exchange information to allow meaningful benchmarking to be done at an appropriate level of granularity.

The Report acknowledges that the efficiency of the Australia Council's grants program was adversely impacted by the quantum of funds available and the large number of applications received. We note the Government's recent decision to transfer an additional \$80.2 million over four years to the Australia Council from 2017-18 will allow us to increase the level of investment in the grants program and deliver significant efficiency gains, which are estimated to be approximately 20% for those programs to which additional funds will be applied.

The Australia Council and its Board take their statutory obligations very seriously, and are committed to the continuous improvement of all activities, including the efficiency of the grants program. Given the relatively short period for which the grants program has operated, Council acknowledges there remain areas where it can continue to improve its approach to the efficiency of grants administration, and we will take the recommendations of the ANAO into account as part of our ongoing work to improve delivery of the grants program.

The Recommendations of the Report are addressed at Attachment A. The Australia Council's summary response to the Report is at Attachment B. The Australia Council's responses to ANAO requests for further information, as well as additional editorial matters you may wish to consider incorporating in the text of the Report, are at Attachment C.

Yours sincerely,



Rupert Myer AO  
Chair



Tony Grybowski  
CEO

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## ATTACHMENT A

### Recommendation One

The Australia Council give greater focus to the efficiency of its grants administration by:

- Establishing suitable measures of efficiency;
- Routinely benchmarking its efficiency; and
- Evaluating the results from efficiency benchmarking to identify opportunities to improve efficiency.

**Australia Council response:** Agreed. The Australia Council is committed to the continuous improvement of the grants program and its monitoring and evaluation, and will take steps to develop and implement metrics to measure and report on the efficiency of our grants administration in this context, including through benchmarking against suitable comparators as well as Council's past performance. Council will work with suitable comparators internationally and nationally to identify, develop and evaluate appropriate efficiency benchmarks and measures.

### Recommendation Two

The Australia Council assess risks at a range of levels across its granting activities and apply a risk-based approach to the assessment of grant applications and management of funding agreements.

**Australia Council response:** Agreed. The Australia Council has a detailed and sophisticated risk management policy framework and plan and is committed to the continuous improvement of risk assessment processes across the organisation, including within its grants program. Consistent with its peer assessment and deliberative-decision making assessment framework, the Australia Council will consider where the application of risk proportionality principles may be strengthened within its grants administration process.



**ATTACHMENT B**

The Australia Council and its Board take their statutory obligations very seriously and are committed to the delivery of accessible, efficient and effective arts funding, including through the Australia Council grants program. The Australia Council welcomes the ANAO audit report on the efficiency of its grants program and agrees in principle to its recommendations.

The Australia Council is pleased that the ANAO audit report acknowledges the significant structural reforms that have been implemented across the Council and its grants program. Throughout the design and implementation of the grants program, the Australia Council and its Board have worked assiduously to achieve high standards of efficiency and effectiveness in the delivery of arts funding. Efficiencies have already been realised through a significant reduction in the number of grants categories, development of streamlined funding criteria and eligibility requirements, and a decrease in staffing levels for the grants program, despite increases in the quantum of grants funds under administration.

The Australia Council notes its view that the ANAO's findings in respect of benchmarking Council's grants administration efficiency against other organisations did not sufficiently acknowledge the lack of data available from relevant comparator organisations to benchmark against. Given that data from relevant comparator organisations was not available for the ANAO's audit, the Australia Council does not consider that the benchmarking exercise undertaken by the ANAO was an appropriate measure of comparative performance.

The Australia Council is committed to the continuous improvement of its grants administration processes and will continue to consider the ANAO's recommendations as part of Council's ongoing work to improve the delivery of its grants program. The Australia Council notes the Government's recent decision to transfer an additional \$80.2 million over four years to the Australia Council from 2017-18 will enable it to increase the level of investment in the grants program and deliver significant efficiency gains, which are estimated to be approximately 20% for those programs to which additional funds will be applied.



**Australian Government**  
**Department of Finance**

David Fredericks  
Acting Secretary

Our Ref: SEC0014718

Mr Grant Hehir  
Auditor-General  
Australian National Audit Office  
GPO Box 707  
Canberra, ACT, 2601

Dear Mr ~~Hehir~~ <sup>Grant</sup>

I refer to the Australian National Audit Office's (ANAO's) correspondence dated 4 July 2017 seeking the Department of Finance's (Finance's) response to the findings of the proposed section 19 Audit Report, *Efficiency of the Australia Council's Administration of Grants*.

Thank you for the opportunity to respond to the matters raised in the report. Our response is:

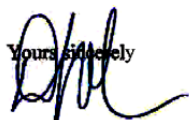
The Department of Finance supports the finding of this report regarding Australia Council considering the option of sourcing grants administration support and services via the Community and/or Business Grants Hubs.

Finance notes that this finding would be consistent with the Australian Government's agenda to transform the way services are delivered and how government operates to create a smaller, smarter and more productive public sector in the context of a fiscally constrained environment.

The *Streamlining Government Grants Administration* Program (the Program) is an important initiative of the transformation agenda, introducing a simpler, more consistent and cost-efficient grants administration process across government via the Community and Business Grants Hubs. Finance encourages all agencies not currently participating in the Program to consider implementing grant activity via the Hubs standardised grant process and ICT grants management service.

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The findings of this audit will make an important contribution to helping facilitate improved grants administration practices across government.

Yours sincerely  


David Fredericks  
Acting Secretary

27 July 2017



**Australian Government**  
**Department of Social Services**

Finn Pratt AO PSM  
Secretary

Mr Andrew Morris  
A/g Group Executive Director  
Performance Audit Services Group  
Australian National Audit Office  
19 National Circuit  
BARTON ACT 2600

Dear Mr Morris *Andrew*

**Response to Extract from Australian National Audit Office (ANAO) Proposed  
Audit Report on *Efficiency of the Australia Council's Administration of Grants***

Thank you for your email of 4 July 2017 providing the proposed audit report under section 19 of the *Auditor General Act 1997* for the performance audit on *Efficiency of the Australia Council's Administration of Grants* which included commentary relating to the Department of Social Services (DSS).

I welcome the findings of the report relating to DSS, and I am pleased to note that the ANAO identified potential cost savings for the Australia Council if the Community Grants Hub was used to deliver grant funding. Further I acknowledge there would be merit in the Australia Council considering accessing grants administration support and services via the Community Grants Hub as part of the Australia Council's planned IT business needs analysis.

My Department has subsequently been contacted by the Australia Council to discuss the potential for the Community Grants Hub to deliver grants administration services for the Australia Council.

A short response to the report as requested is at **Attachment A**. If you would like further information on the Department's response, please do not hesitate to contact Mr Iain Scott, Group Manager, Community Grants Hub, on 02 6146 6259, or by email at [Iain.Scott@dss.gov.au](mailto:Iain.Scott@dss.gov.au).

Yours sincerely

Finn Pratt

1 August 2017

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[www.dss.gov.au](http://www.dss.gov.au)

## Attachment A

**DSS response to the proposed report on the *Efficiency of the Australia Council's Administration of Grants***

DSS welcomes the finding from the ANAO performance audit report relating to the Department and notes the potential cost savings for the Australia Council if the Community Grants Hub was used to deliver grant funding. DSS would welcome working with the Australia Council in considering accessing grants administration support and services via the Community Grants Hub as part of the Australia Council's planned IT business needs analysis.



Australian Government  
National Health and Medical Research Council

NHMRC

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Mr Brian Boyd  
Executive Director  
Australian National Audit Office  
19 National Circuit,  
Barton ACT 2600

Dear Mr Boyd

Thank you for your email dated 4 July 2017, drawing my attention to an extract of the ANAO proposed audit report on *Efficiency of the Australia Council's Administration of Grants* that includes commentary relating to the National Health and Medical Research Council (NHMRC).

I accept this extract of the proposed report as is and have no comments to add.

My summary response is as follows:

NHMRC strongly supports the peer review of grant applications and commends the Australia Council on its commitment to efficient and effective peer review. NHMRC extends its support for the Australia Council as it continues to strengthen and streamline its administration and is more than willing to share our experience with Australia Council.

Yours sincerely

Professor Anne Kelso AO  
Chief Executive Officer

1 August 2017

WORKING TO BUILD A HEALTHY AUSTRALIA



Department of  
**Local Government, Sport  
and Cultural Industries**

Our ref 16/637 D/2017/13473  
Enquiries Paul Caulfield  
Phone 6552 7545  
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Mr Brian Boyd  
Executive Director  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601

Dear Mr Boyd

### **EFFICIENCY OF THE AUSTRALIA COUNCIL'S ADMINISTRATION OF GRANTS**

Thank you for the opportunity to comment on the Australian National Audit Office's audit of the efficiency of the Australia Council's administration of grants.

Establishing benchmarks for output efficiency for grant programs will provide valuable information for all grant giving bodies. Output efficiency is an important measure, but the measure's usefulness is limited if it is not linked to a measure of effectiveness, and if the environment and external factors are not identified.

The provision of information for the audit from Culture and the Arts WA (formerly the Department of Culture and the Arts; as at 1 July 2017, a division of the Department of Local Government, Sport and Cultural Industries) drew attention to a number of methodological issues. The first was ensuring consistency in what was included in the cost of administration of grants, and whether the definition of administration was broad (the cost to deliver the whole grant program) or narrow (the cost of processing the grant application). We would argue that the broader definition provides a better efficiency measure, and provides an opportunity to assess the veracity of the costings provided against budget service output measures used by many government departments and agencies.

The National Audit Office's audit of the Australia Council's grants program used the cost of delivery of \$1 of grant as the sole efficiency measure. By definition, this measure means grant programs with a greater pool of funding will always have greater output efficiency, and there is a risk that a simplistic conclusion will be drawn that funding programs with large funds and large payments are better. Therefore in comparing one grant program's \$1 grant efficiency ratio to another, great care needs to be taken to ensure that the quantum of funding provided is included as contextual information.

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A measure which can readily be compared is the economy measure of cost per grant application received. This measure takes into account a key cost driver in grant application processing, which is the number of applications received. When the cost of delivering \$1 of grant funding is used in conjunction with the cost per grant application received a valuable comparison and conclusion can be drawn about the efficiency of a grant program.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Duncan Ord', with a horizontal line drawn through it.

Duncan Ord OAM  
A/Director General

1 August 2017