Investment principles for discretionary grants

#### These principles have been approved for use when developing new or re‑shaped discretionary grant programs. They will be used by central agencies to evaluate funding proposals for discretionary grants as part of the State Government budget process.

1. Grants should only be used when they secure a government policy outcome.

Proposals without clearly articulated policy objectives and evaluation mechanisms will not generally be funded.

1. Discretionary grants should not be used without first considering alternative policy mechanisms or existing grant programs.

Grants are not necessarily the most efficient means of achieving a policy outcome.

Discretionary grants impose significant administrative costs on government and recipients, and can potentially result in an inefficient allocation of resources. Grants should not be used without first considering alternative policy mechanisms (such as revenue mechanisms, regulatory mechanisms, information mechanisms or alternative spending mechanisms).

Where discretionary grants are the most appropriate policy instrument, use of existing grant programs is often more efficient, as it allows greater scale, and existing administrative arrangements can be used. Consideration should be given as to whether existing grant programs could be modified or expanded.

1. Grants should not be used with the principal objective of transferring revenue to local government.

Grants are an inefficient means of addressing the fiscal imbalance between levels of government.

1. Care should be taken to ensure grants do not lead to state government overreach into local government’s areas of responsibility, nor create an ongoing need for funding.

Best practice use of grants is:

Where the target project has benefits that flow beyond local government borders (e.g. projects with state or regional significance);

Where state government is seeking to drive institutional innovation; or

To achieve state government policy objectives in areas in which the government lacks a jurisdictional mandate to act unilaterally.

1. Grant programs should be designed to minimise administration costs.

The administration cost to government should generally be less than 5 per cent of the overall program budget.

Where administration costs are expected to be greater than this, this rationale should be presented in the business case when seeking funding for a new, extended or expanded grant program.

Establishment of new, extended or expanded grant programs should clearly identify the amount for administration, which should be separate to the amount to be provided to recipients.

Grant programs that are smaller than $1 million per annum are generally costly to run as standalone government‑administered programs. Before considering the creation of a new grant program, expansion or modification of existing grant programs should be considered.

1. Where small grants are used, they should be administered by the organisation that is able to do so most efficiently.

The administrative cost to government of programs distributing small grants is generally high.

A preferable option is to use an intermediary organisation to distribute small grants (i.e. less than $10 000) on government’s behalf.

1. Accountability requirements imposed on grant recipients should be proportionate to risk.

Accountability and reporting requirements impose a significant burden on grant recipients, and care needs to be taken to ensure they are not excessive. A risk framework should incorporate an assessment of the size of the grant and the nature of the recipient. Grants to local government are generally low risk, and reporting and accountability arrangements to local government should be streamlined accordingly.

The collection of evaluation data is a critical component, contributing to program evaluation and development. Data requirements need to be carefully balanced against the administrative burden imposed on grant recipients.

1. Grants can be disbursed by competitive, negotiated or allocated mechanisms.
   * + **Competitive mechanisms** are most efficient for larger projects (such as infrastructure), where innovation is a particular policy objective, or where an auction process can be used to allocate funds based on project outcomes.
     + **Negotiated grants** are most efficient where inadequate market competition exists. This is most obviously the case when government is working with local government in a particular location to achieve a policy objective.
     + **Allocated grants** are most appropriate where government is seeking to equitably apply funds (usually to local government) towards the achievement of a particular policy objective. In the grants context, allocated funds are ‘tied’ and applied to the objective of the program.
2. Better Grants by Design should be used to provide further guidance when designing and developing new grant programs.

*Better Grants by Design* is available on the VPS Hub.

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