Effectiveness of Drought Assistance Measures
Dear Presiding Officers


Yours faithfully

DR PETER FROST
Acting Auditor-General

10 June 2009
Foreword

Victoria’s current drought has been severe, prolonged and has had adverse consequences for our economy, especially for the agricultural sector and our rural communities.

Governments at national and state levels have been actively intervening to counter the worst effects of drought and significant funding has been spent to assist farmers and the rural communities. The rebate for fixed water charge and municipal rate subsidy schemes are part of Victoria’s drought relief program. They account for nearly half of the state’s total expenditure on drought assistance. Since these schemes were introduced in 2005–06 they have cost $176 million.

Both schemes have no documented objectives or outcomes; therefore, it was not possible to reach a conclusion on their effectiveness.

With limited government funds available, schemes should be designed to meet specific needs. This was not the case particularly for the rebate for the fixed water charges scheme.

Agencies should also have sound control frameworks for third-party payments made on their behalf. The Department of Primary Industries has been diligent in their management of the municipal rate subsidy scheme. The Department of Sustainability and Environment needs to develop better controls for payments that water authorities make on their behalf for the rebate for fixed water charges.

Although helping the rural community through this crisis has been an overriding concern, it should not overshadow the need for accountability mechanisms that demonstrate whether public funds have been well spent.

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Audit summary

1.1 Introduction

The impact of drought is widespread and extends to agribusinesses, rural and regional communities and state and national economies.

In October 2008, the state raised its support for farmers and rural communities by $115 million to nearly $400 million since 2005–06.

In response to unprecedented conditions faced by farmers and affected businesses, the government introduced drought response measures that directly targeted business assistance. This included the municipal rate subsidy and rebate for fixed water charges (water rebate) in 2005 and 2006 respectively.

Just over 48 per cent of funding has been allocated to the water rebate and municipal rate subsidy between 2005–06 and 2008–09. Both these schemes provide business support to certain eligible categories of farmers. This audit focused on these schemes, given their materiality. The balance of funding is spread across approximately 50 other drought programs.

The audit objective was to assess the effectiveness of the water rebate and the municipal rate subsidy measures in terms of how well these measures have achieved objectives.

1.2 Conclusion

While the audit acknowledges the need to respond quickly to the worsening drought situation, there are no documented objectives or intended outcomes for the municipal rate subsidy and water rebate schemes, apart from the high-level strategic objectives of the drought assistance package. Consequently, we could not definitively conclude that funding for these two schemes are an effective use of public moneys. Normally it would be expected that schemes should be able to demonstrate that public money has been well spent, given the $176 million cost incurred as at the end of February 2009.

In terms of Victoria’s future drought assistance programs, implementing the National Reform Agenda is likely to result in a longer-term response in line with recently agreed principles for drought reform, which emphasise greater preparedness and self-reliance by farmers.
The Department of Primary Industries (DPI) control framework could be relied on to provide an adequate level of assurance that payments of the municipal rate subsidy were made in accordance with the schemes requirements. Less reliance could be placed on the Department of Sustainability and Environment’s (DSE) control framework over water rebates. This also affected the administration of the rebates by water corporations. Further, in the case of Goulburn-Murray Water, the control environment should be strengthened.

1.3 Findings

1.3.1 Scheme design

There were no documented objectives or intended outcomes for either scheme, apart from the broad strategic objectives of the drought assistance package to help farmers with the worst drought on record. This meant that it was not possible to measure the extent to which expenditure on these schemes was effective.

The water rebate scheme is not means tested. As long as eligible customers in 2008–09 are receiving less than 30 per cent of their water allocation, the rebate is paid irrespective of their financial circumstances. In 2007–08 the rebate was paid if customers received less than 40 per cent of their water allocation and, in 2006–07, less than 50 per cent of their water allocation.

1.3.2 Performance reporting with an outcome focus

Program implementation and the financial status of all current drought assistance initiatives are reported quarterly. The reporting framework does not include the extent to which program objectives are achieved and the level of contribution made by the program to meeting relevant outcomes.

The transaction-based design of both the water rebate and municipal rate subsidy schemes makes it difficult to effectively measure the extent to which outcomes have met objectives. However, not all drought assistance programs are transaction-based and there is potential to improve the way in which their performance is reported across the board. Clear and consistent performance reporting holds agencies accountable for how well public money is spent.

1.3.3 Program development and the National Reform Agenda

Drought initiatives are reassessed annually to determine whether funding should continue. The National Reform Agenda should involve a rethink of existing Victorian drought assistance programs. This should drive a longer-term and better-targeted approach to program development that conforms to the recently agreed principles for drought reform, announced by the Primary Industries Ministerial Forum in November 2008 and reconfirmed in February 2009.
1.3.4 Control frameworks over expenditure

DPI has developed a control and reporting framework that provides a sound level of assurance over the expenditure by councils in relation to the municipal rate subsidy. This involves both independent audits over councils’ administration of the scheme and comprehensive monitoring of payments.

DSE needs to improve its control framework for managing the water rebate. For example, eligibility criteria requires further clarification to avoid the difficulties being experienced by water corporations in interpreting the criteria.

1.4 Recommendations

Effectiveness of schemes

The Drought Interdepartmental Coordination Group (DICG) should consider the impact of the National Reform Agenda and:

- establish a consistent approach to sound program design and development such as clearly defined objectives and outcomes to give effect to the Primary Industries Ministerial Forum’s recently agreed principles for further drought reform
- re-evaluate existing initiatives for consistency with these principles (Recommendation 4.1).

The Department of Primary Industries (DPI), as part of its management of the Drought Interdepartmental Coordination Group (DICG), should:

- improve current performance reporting of drought assistance programs to include the reporting of outcomes and their extent of alignment with program aims and objectives
- develop a standard method for evaluating key drought assistance programs, in conjunction with relevant agencies (Recommendation 4.2).

Rebate and subsidy administration

DSE should improve the planning and control framework for the Rebate for Fixed Water Charges (water rebate) and, in particular:

- improve consultation and communication with water corporations when planning and implementing any changes to the scheme’s administration
- implement a robust risk management framework for the scheme’s operation and delivery
- closely monitor the administration of the water rebate to identify any inconsistencies or inaccuracies in interpretation of the eligibility criteria by water corporations
effectiveness of drought assistance measures

- enforce the requirements of the deed of grant with each water corporation, particularly for reporting and audit of the administration of the scheme to provide assurance over the expenditure of public funds (Recommendation 5.1).

Goulburn-Murray Water should upgrade control procedures by:
- including the administration of the water rebate in its risk management plan
- increasing the sample size for checking that the water rebate has been correctly applied
- improving controls over data security (Recommendation 5.2).

Grampians Wimmera Mallee Water should include the administration of the water rebate in its risk management plan (Recommendation 5.3).
2 Audit Act 1994 section 16 – submissions and comments

2.1 Introduction

In accordance with section 16(3) of the Audit Act 1994 a copy of this report, or relevant extracts from the report, was provided to the Department of Primary Industries, Department of Sustainability and Environment, Goulburn-Murray Water Corporation and Grampians Wimmera Mallee Water Corporation with a request for comments or submissions.

The comments and submissions provided are not subject to audit nor the evidentiary standards required to reach an audit conclusion. Responsibility for their accuracy, fairness and balance rests solely with the agency head.

2.2 Submissions and comments

RESPONSE provided by the Secretary, Department of Primary Industries

The Department of Primary Industries (DPI) welcomes the Victorian Auditor General’s Office (VAGO) audit on Effectiveness of Drought Assistance Measures.

Agriculture is a significant contributor to Victoria’s economy, supporting families, small businesses and communities across the state. In 2007-08, the gross value of agricultural production was $11.8 billion (preliminary estimate). Around 75,000 people are employed directly in agriculture, whilst more than 90,000 are employed in associated processing industries.

However, prolonged drought conditions have severely affected agricultural production and the economic and social well-being of farming families and communities across the state. In the north-west, farmers have received below average rainfall for periods of up to 12 years. Record low inflows in the southern Murray Darling Basin have resulted in significantly reduced irrigation allocations in northern Victoria. Some regions have now been continuously Exceptional Circumstances (EC) declared since December 2002, and for most of the last 26 months, all of the state has been EC declared.

The Victorian Government has responded by providing over $400 million to fund assistance measures to support families, small businesses and communities since 2006.
RESPONSE provided by the Secretary, Department of Primary Industries – continued

The report recommends that the design and development of drought assistance programs should be aligned with policy principles agreed by Australian Primary Industries Ministers at the Ministerial Forums on 12 November 2008 and 13 February 2009. DPI concurs with this recommendation.

The principles were developed as part of the national drought reform process, in which DPI is fully engaged. Whilst this process has not been finalised, there has been significant progress in the development of a more consistent approach to assistance provided by Governments. Future program design will be enhanced by the shared understanding that drought policy needs to create an environment of self-reliance and preparedness and encourage the adoption of appropriate climate change management practices.

DPI will continue to work with other government departments, including central agencies, via the Drought Interdepartmental Coordination Group to develop appropriate, effective and efficient assistance measures for consideration by the Ministerial Drought Taskforce.

DPI is committed to working with other departments to develop effective performance reporting and evaluation of drought assistance programs. To this end, DPI has commenced a comprehensive evaluation of the on-farm productivity improvement grant initiative. The findings will be used to inform the design and delivery of potential business support measures under a new national drought assistance framework.

DPI welcomes the audit report findings regarding the management and administration of the municipal rate subsidy, including the effectiveness of the Department’s engagement with municipal councils. This is essential, as DPI relies on council staff for the timely and efficient delivery of subsidies to eligible ratepayers. The commitment and professionalism of these officers is greatly appreciated.

In conclusion, this audit will contribute to the provision of appropriate, effective and efficient drought assistance in the future.

RESPONSE provided by Acting Secretary, Department of Sustainability and Environment

As a result of unprecedented low inflows in conjunction with continuing drought conditions, the Government introduced immediate assistance to farmers and industries impacted by the drought.

DSE complied with the Government’s direction by implementing and releasing funding through the Rebate for Fixed Water Charges in a timely manner.
RESPONSE provided by CEO Goulburn-Murray Water Corporation

Item 5.3.2: Monitoring the integrity of payments and data

At the time of processing the rebate G-MW was not aware the rebate procedure would be audited in the future and therefore did not retain evidence of electronic checks and reviews carried out to ensure the accurate application of the rebate. The manual check referred to by the auditor is an additional check to ensure correct formatting, presentation and transposition of data from the accounts receivable database. This additional check is carried out for all accounts issued by G-MW. In future G-MW will retain auditable evidence of checks carried out to ensure rebate amounts are applied correctly.

RESPONSE provided by CEO Grampians Wimmera Mallee Water Corporation

On the basis of the final version it appears that there is still some concern about our risk management processes and more specifically how the administration of the water rate rebate has been handled as a risk.

GWMWater delivers a number of rebates on behalf of government and the critical issue in our administration of these rebates is that the customer entitlement is accurately calculated and claimed in accordance with the administrative arrangements that underpin the rebate scheme.

The recommendations from your report suggest that we include a specific risk in our risk register that relates to the ‘administration of the water rebate’. GWMWater has placed a lot of rigour into the development of the risk register and has tended to have a more generic representation of risks. In relation to the water rate rebate, GWMWater believe that the risk is already in the register and that the risks associated with reputation and the incorrect calculation of customer accounts adequately cover the risks associated with the application and administration of the water rebate. These risks are reviewed periodically to assess the extent that any environmental changes have occurred that will give rise to a restatement of the risk.

Whilst we did not formally go and reassess this risk we were aware of the elevated risks and this was reflected in risk mitigation strategies that were undertaken.
RESPONSE provided by CEO Grampians Wimmera Mallee Water Corporation – continued

These strategies included:

- the communication with DSE that sought clarity on our interpretation of the eligibility criteria specific to water allocation; and
- the level of checking of accounts to ensure that the rebate was applied and calculated correctly.

The risk management processes of GWMWater were independently assessed by the Victorian Managed Insurance Authority (VMIA). The VMIA review concluded that the risk management framework in place at GWMWater was ‘exemplary’. VMIA went on to add that ‘a comprehensive risk management framework is operating successfully in the agency’.

GWMWater has processes in place that support a regular environmental scan of all our risks to assess the extent risks have changed. We are currently refining our systems to ensure risks are better managed and we will address any issues associated with the administration of the water rate rebate or any other rebates through this process.

The remaining report has satisfactorily taken into account the Corporations views and considerations.
3 Background

3.1 Drought

Agriculture plays an important role in Victoria’s economy, directly employing more than 67,000 people and contributing approximately 2.7 per cent of Victoria’s annual gross state product. However, according to Australian Bureau of Statistics (ABS), Victorian output for agriculture, forestry and fishing fell by 18.2 per cent in 2006–07 compared with 2005–06. The severe drought was an important factor in this decline.

Since the late 1880s, Australia has had many severe and prolonged droughts. They include the Federation Drought of 1895–1902, the 1914–15 drought, the World War II droughts during 1937–45, the 1982–83 drought and the El Niño associated droughts from 1991–1995 and in 1997. Some regions of Victoria have been in drought since the late 1990s.

Drought needs to be distinguished from adverse climate shifts. Drought has traditionally been seen as a periodic event, shown statistically as a low point in historical average rainfall and river flow. Climate change suggests there may be a long-term and permanent shift in water availability. Accordingly, drought should be viewed in this broader context.

3.2 Climate change

Since the mid twentieth century, Australian temperatures have, on average, risen by about 1°C. There have been more heatwaves and fewer frosts and cold days. Victoria’s warmest year on record was 2007 with a mean annual temperature 1.18°C above the norm. This was 0.37°C above the record set in 1988. Rainfall patterns have also changed. There has been more rain in the northwest over the last 50 years, with a decline in much of eastern Australia and the far southwest.

According to the Bureau of Meteorology, although the average temperature for 2008 was slightly lower than the previous six years, Australia still recorded its seventh consecutive warmer-than-average year.
3.3 National drought policy: federal and state

In August 1992 the federal, state and territory governments ratified a National Drought Policy (NDP) that changed drought management in Australia. Previously, under the Natural Disaster Relief Arrangements, the Commonwealth funded the states after they passed a spending threshold.

The NDP aims to encourage primary producers and other sections of rural Australia to be self-reliant in managing climate variability. It aims to ensure that eligible farmers and small business operators with good long-term prospects are not forced to leave the land or their business due to short-term adverse events they cannot manage.

In April 2005 the Primary Industries Ministerial Council (PIMC) agreed to revised objectives for the National Drought Policy that include recognition of the need for appropriate assistance to be provided to producers experiencing exceptional drought conditions. This assistance should be equitable, efficient and timely using best scientific information.

The PIMC agreed that the federal, state and territory governments and the National Farmers’ Federation should work together on the harmonisation of Australian and state/territory support measures, while working to achieve a managed transition from drought business support to drought preparedness activities.

Under the NDP, a state or territory government can apply to the federal minister for agriculture, fisheries and forestry for a declaration of ‘exceptional circumstances’ in an allocated area if it believes an extreme or prolonged drought has gone beyond normal risk management limits.

3.3.1 Exceptional circumstances

‘Exceptional circumstances’ (EC) are rare and severe events outside those a farmer could normally be expected to manage using responsible farm management strategies. These average once every 20–25 years and affect income for more than 12 months.

If the minister declares an area as having ‘exceptional circumstances’, producers qualify for substantial federal grants, including interest rate subsidies and farm income support. The federal government funds the states for 100 per cent of income support, while the cost sharing formula for business support is 90:10 (Commonwealth: state).

Since 2001, the federal government has given about $2.6 billion to farmers in drought assistance, most notably through EC programs for income support and interest rate subsidies. It has committed up to $1.09 billion to continue EC support in 2007–08, up from $713 million in 2006–07.
3.3.2 Productivity commission public inquiry

In April 2008 the federal government announced it would review drought policy including EC assistance. The federal government asked the Productivity Commission to conduct an inquiry, which led to the Government Drought Support Public Inquiry.

The commission was asked to identify the best way for governments to help farmers, farm businesses and farm dependent rural small businesses improve their self-reliance and preparedness for drought.

The terms of reference were to:

- report on the appropriateness, effectiveness and efficiency of the Commonwealth, state and territory governments’ business support and income support measures
- identify impediments to improving self-reliance and preparedness for periods of financial difficulty
- identify the most appropriate, effective and efficient responses by Commonwealth, state and territory governments to build self-reliance and preparedness to manage drought.

Findings from the inquiry’s final report released in May 2009 include:

- most agricultural regions need to prepare for higher temperatures, and for some, more frequent periods of exceptionally low rainfall
- the National Drought Policy’s (NDP) Exceptional Circumstance (EC) declarations and related drought assistance programs do not help farmers improve their self-reliance, preparedness and climate change management
- EC interest rate subsidies and state-based transactions subsidies are ineffective, can perversely encourage poor management practices and should be terminated
- policies relating to water, natural resource management and climate change all impact on farm businesses and local communities and need to be better integrated.

3.4 Drought assistance policy

In February 2007, the Victorian Government Drought Taskforce Committee endorsed a Drought Assistance Policy Framework. The principles were to be adopted for drought assistance policy and related criteria.

The principles are broadly in keeping with the objectives of the National Drought Policy, with the exception that the principles do not recognise that farmers may experience ‘exceptional circumstances’.

The rationale for these principles was to provide better guidance on the development of future drought assistance programs. Figure 3A lists the Drought Relief Principles.
Drought should be treated as a legitimate business risk that farmers and other businesses should prepare for.

- Drought relief should not undermine the incentive for businesses/farmers to prepare for drought.
- Drought assistance should not be provided to businesses who have not taken available measures to prepare for drought.
- Drought relief should not set a precedent whereby government will be responsible for climate related risks.

Drought relief measures should be environmentally sustainable.

- Drought relief should not impede efficient water allocation and use.
- Drought relief should not unduly prolong activities that place additional stress on land and natural resources during times of drought. Therefore assistance measures should be decoupled from land-use actions.

Drought related assistance should target household welfare and community resilience through support for social and economic infrastructure.

- Drought relief should not treat the farm business and household as one unit.
- Business assistance should not be used to provide income support.
- Drought relief should aim to address the welfare and health needs of affected families and communities.

Drought policy should aim to manage the long-term structural adjustment process.

- Drought policy should aim to manage, not delay, structural adjustment.
- Drought response should facilitate transitional adjustment by making the communities more resilient to continued dry conditions.
- Drought response should encompass broader economic measures to facilitate the transition to alternative employment opportunities in communities which are heavily reliant on the farming sector.

Source: Victorian Auditor-General’s Office, using information supplied by the Department of Primary Industries.

The Victorian government’s Future Farming Strategy of April 2008 is also relevant to its drought response. The $205 million initiative outlines services for farm businesses and rural communities. It has seven actions, including understanding and managing risks in a changing climate, and strengthening land and water management. The strategy acknowledges that direct financial business support during adverse seasons has undermined the incentives to manage business risk and prepare for the inevitable periods of dry conditions.
3.5 **Drought assistance measures**

The Victorian government has provided approximately 50 drought assistance programs for individuals, businesses, councils, catchment management authorities and sports clubs. A summary is in Appendix A.

In October 2008, the Victorian Government raised its support for farmers and rural communities by $115 million, totalling nearly $400 million since 2006.

Just over 48 per cent of funding has been allocated to the rebate for fixed water charges and municipal rate subsidies between 2005–06 and 2008–09. This audit examined these initiatives, given their materiality and the limited funding for most other programs.

3.5.1 **Rebate for fixed water charges**

Funding allocated for the rebates for fixed water charges totalled $144 million between 2006–07 and 2008–09. In 2006–07 the rebate paid the first $5 000 of fixed water charges for irrigators, stock and domestic farmers who were getting less than 50 per cent of their normal water entitlements. In 2007–08, this fell to $1 000, with a 50 per cent rebate on any balance above $1 000 for those with less than 40 per cent of their water entitlements. In 2008–09, eligible customers continue to receive a rebate of up to $1 000 and 50 per cent on any balance over this limit for customers receiving less than 30 per cent of their water allocation entitlement as at 1 December 2008.

3.5.2 **Municipal rate subsidy**

Funding allocated for the municipal rate subsidy totalled $47 million between 2005–06 and 2008–09. Farmers who get emergency payments or exceptional circumstances relief payments from Centrelink in a designated time period are eligible for subsidies of up to 50 per cent on their municipal rates and charges.

3.5.3 **Alignment with national and state drought policies**

The water rate rebate and the municipal rate subsidy are essentially business support programs. As such, they do not align with the National Drought Policy, Victorian Future Farming Strategy and Victorian drought relief principles, which focus on changing behaviours so that businesses and individuals can better prepare for and manage the long-term effects of drought.

The government decided to fund both programs given the need to respond quickly to the worsening drought conditions.
3.6 Drought assistance management

In October 2007, the Department of Primary Industries (DPI) took over responsibility from the Department of Premier and Cabinet (DPC) for monitoring and coordinating drought assistance programs. It also manages a Drought Interdepartmental Coordination Group (DICG). Prior to this DPC, coordinated the group.

DICG members are representatives from:
- Department of Primary Industries (DPI) Chair
- Department of Premier and Cabinet (DPC)
- Department of Treasury and Finance (DTF)
- Department of Sustainability and Environment (DSE)
- Department of Human Services (DHS)
- Department of Planning and Community Development (DPCD)
- Department of Education and Early Childhood Development (DEECD)
- Regional Development Victoria (RDV)
- Rural Finance Corporation
- Tourism Victoria.

The DPI, DPCD, RDV, DSE, DHS and Department of Transport (DOT) administer and deliver drought assistance programs. Each department is responsible for managing the initiative for which they are the lead agency. DPI also provides an online and telephone drought information service and manages a Drought Stakeholder Reference Group comprising local government and stakeholder representatives. Departments provide DPI with quarterly progress reports. The DICG makes recommendations to the Ministerial Drought Taskforce.

The DICG:
- coordinates the whole-of-government response to drought, in line with drought relief principles
- monitors the impacts of drought and the capacity of industry and communities to respond
- guides the development of the Victorian Government’s drought communication plan and monitors its effectiveness
- evaluates the effectiveness of drought initiatives
- contributes to Victorian Government input to national drought policy.

The Ministerial Drought Taskforce set up in September 2006 comprises the premier, the treasurer and the ministers for regional development, water, agriculture, environment and climate change, mental health and community development.
The Ministerial Drought Taskforce:
- coordinates data collection on the drought, including long-term forecast data
- determines the social, economic and environmental impacts of the drought
- identifies immediate priority areas for state government response
- identifies and coordinates state government resources for response
- coordinates the state government’s response to the worsening drought
- considers and agrees on whole-of-government policy and immediate response to the drought
- considers long-term state government responses
- consults with stakeholders on options and action.

3.7 Audit objectives and scope

The audit objective was to assess the effectiveness of the water rebate and the municipal rate subsidy measures in terms of how well these measures have achieved objectives.

The audit looked at the two drought assistance measures that account for 48 per cent of total funding since 2005–06 rebates for fixed water charges and the municipal rate subsidy. The responsible departments were DSE and DPI, respectively.

The audit conformed to the Australian Auditing Standards for performance audits, and included tests and procedures sufficient to allow audit conclusions to be reached.

The total cost of the audit was $275,000. The cost includes staff time, overheads and printing.

3.8 Structure of this report

The rest of the report is as follows:
- Part 4 covers the effectiveness of both the rebate for fixed water charges and the municipal rate subsidy schemes; that is whether they have achieved intended objectives and outcomes. It also examines how well these programs target need as well as the adequacy of their performance monitoring and reporting arrangements.
- Part 5 provides an overview of rebate and subsidy administration. This covers the work at DPI and DSE as lead agencies and councils and water authorities who, as delivery agents, assess eligibility and make payments.
Effectiveness of schemes

At a glance

Background
The rebate for fixed water charges (water rebate) and municipal rate subsidy are drought assistance schemes that provide drought affected communities with business support. To date both schemes together have cost $176 million as at the end of February 2009.

Findings
• The schemes do not have documented objectives and outcomes.
• The water rebate is received by all eligible applicants irrespective of their financial situation.
• Current planning for drought assistance programs is short-term.
• Performance reporting of drought assistance programs does not focus on the extent to which outcomes are being achieved.

Recommendations
The Drought Interdepartmental Coordination Group (DICG) should consider the impact of the National Reform Agenda and:
• establish a consistent approach to sound program design and development such as clearly defined objectives and outcomes to give effect to the Primary Industries Ministerial Forum’s recently agreed principles for further drought reform
• re-evaluate existing initiatives for consistency with these principles.

The Department of Primary Industries (DPI), as part of its management of the DICG, should:
• improve current performance reporting of drought assistance programs to include the reporting of outcomes and their extent of alignment with program aims and objectives
• develop a standard method for evaluating key drought assistance programs, in conjunction with relevant agencies.
4.1 Findings

The drought assistance package has two key objectives to support farmers cope with the worst drought on record:

- short-term support to help families and communities dealing with the temporary impact of exceptional circumstances
- longer-term assistance for structural adjustment for farming and other businesses whose ongoing viability is threatened by adverse climatic conditions.

The government, in response to the severe and prolonged drought conditions, moved quickly by introducing business assistance measures such as the water rebate and municipal rate subsidy schemes in 2005 and 2006 respectively. In taking this decision, the government received appropriate advice from Department of Primary Industries (DPI) and Department of Sustainability and Environment (DSE).

4.1.1 Program design

Good program design should include clearly defined objectives and outcomes, alignment with drought policy and targeting of those in greatest need.

Objectives and outcomes

There were no documented objectives or intended outcomes for the municipal rate subsidy and water rebate schemes, apart from the high-level strategic objectives of the drought assistance package. This applied to both the initial decision to fund these initiatives and subsequent documentation on the operation of these schemes. It was therefore not possible to reach an audit conclusion on the degree to which outcomes met objectives.

Alignment with drought policy

Drought assistance programs are reviewed annually to determine if they should continue. The Drought Interdepartmental Coordination Group (DICG) advised the government in 2007 that without a clear strategic framework for drought response, there was a risk that the current programs would be unsustainable economically, fiscally and environmentally given their short-term focus.

The water rebate and municipal rate subsidy schemes, while costly, are short term measures and it is not evident they address the longer-term drought situation by better preparing farmers for the future, which is the key focus of drought policy such as the Future Farming Strategy and Victorian Drought Relief Principles.

DICG recommended a longer term response to drought. Recent developments at a national level have the potential to address this. In February 2008 the Primary Industries Ministerial Forum (PIMF), comprising ministers responsible for primary industries, identified the need to reform drought policy. This resulted in the national review of drought policy and a final report was released in May 2009.
The PIMF issued a communiqué on 12 November 2008 as part of the review, agreeing to principles for future drought reform. They included among other things, that farm business support should assist farms to plan and prepare for the future and that this support would be based on their willingness to prepare for drought and climate change. Ministers agreed to work on an intergovernmental agreement at the Ministerial Forum on 13 February 2009 to ensure there was a coordinated approach.

This should provide for a longer-term response to Victoria’s drought crisis and involve:
- improving program design and development across the board consistent with these principles
- re-evaluating existing drought assistance initiatives in the light of these principles.

Targeting need
Payments for the water rate rebate are not based on demonstrated need.

The water rebate is targeted to:
- irrigators supplied by regulated systems
- regulated surface water diverters
- stock and domestic customers supplied by regulated systems
- groundwater diverters within the Water Supply Protection Areas
- unregulated surface water diverters.

A select number of councils and water corporations commissioned independent consultants in September 2007, who concluded that the water rebate was not well targeted. The review found that some smaller customers received a 100 per cent rebate on their total water account and larger customers received only a partial rebate. The consultants concluded that the rebate benefited smaller farmers who were likely to have off-farm income. Various water corporations and key stakeholder groups concurred with this.

Responding to these concerns, the Department of Sustainability and Environment (DSE) changed the rebate eligibility criteria in 2007–08. Eligible water users could receive a rebate of up to $1,000 on their fixed water charge, with a 50 per cent rebate on any balance over $1,000. Prior to this in 2006–07, the rebate was capped at $5,000 for customers who received less than 50 per cent of their water allocation.

DSE advised these changes were intended to make the scheme more equitable, however there was no means of determining the extent to which this was achieved. DSE has attempted to address the issue of inequity when considering options for delivering the scheme.

These inequities relate to a broader concern noted in an evaluation of all Victorian drought assistance programs from 2006 to 2008 commissioned by the Department of Treasury and Finance (DTF). While the rebate schemes scored highly in terms of timeliness of delivery, there is no assessment of the levels of need. An applicant is either eligible or ineligible.
4.1.2 Performance reporting with an outcome focus

Clear and consistent performance reporting is important because agencies need to account for how well public money is being spent and what this expenditure has achieved. It also provides a platform for addressing areas warranting improvement.

In addition to program progress and financial status, good performance reporting should include:

- extent of alignment of outcomes with program aims and objectives
- extent of alignment of program with whole-of-government drought policy objectives
- reporting of outcomes using key performance indicators
- a comparison of performance across the years
- a summary of findings/recommendations of recent program reviews and status of actions taken.

DPI prepares quarterly reports for members of the Drought Interdepartmental Co-ordination Group (DICG) that outline all drought initiatives across departments. These reports include brief details relating to each scheme in terms of general description, implementation milestones, budgetary information and general progress.

While current reporting details progress of projects and funds expended on the program, there are no details in relation to progress made towards the achievement of program objectives and their contribution to relevant outcomes from a whole-of-government perspective.

The transaction-based design of both the water rebate and municipal rate subsidy makes it difficult to effectively measure the extent to which outcomes have met objectives. However, many other drought assistance programs are not transaction-based, and there is potential to improve the way in which their performance against objectives is reported across the board.

While the use of key performance indicators provides an indicative view of the performance of programs, a properly designed program evaluation would provide a more definitive view.

There have been a number of different reviews of the drought assistance programs generally in terms of compliance with Victoria’s drought relief principles. These include reviews undertaken on behalf of DTF, DSE and DPI.

There has, however, been no evaluation program developed for major drought assistance programs involving outcomes-based, qualitative reporting connecting evaluation results with program management, monitoring and continuous improvement.
The Public Accounts and Estimate Committee’s May 2008 report

The Public Accounts and Estimate Committee’s (PAEC) May 2008 report on the 2006–07 Financial and Performance Outcomes concluded that department annual reports only reported drought initiatives spending sporadically. PAEC commented there was no centralised public reporting for initiatives like the drought relief program. This made it difficult to understand the full extent of the investment and level of expenditure, and the progress towards meeting the objectives.

In response to PAEC’s report, DTF released the South Australian Centre for Evaluation Studies’ (SACES) evaluation on its website in late 2008. No other departments have publicly released evaluations or reviews of drought assistance initiatives.

4.2 Conclusion

As these schemes had no clear objectives and defined outcomes the audit could not reach an audit conclusion whether they were a cost effective use of government funds. In terms of Victoria’s future drought assistance programs, implementing the National Reform Agenda is likely to result in a longer-term response in line with recently agreed principles for drought reform, which emphasise greater preparedness and self-reliance by farmers.

Recommendations

4.1 The Drought Interdepartmental Coordination Group (DICG) should consider the impact of the National Reform Agenda and:

- establish a consistent approach to sound program design and development such as clearly defined objectives and outcomes to give effect to the Primary Industries Ministerial Forum’s recently agreed principles for further drought reform
- re-evaluate existing initiatives for consistency with these principles.

4.2 The Department of Primary Industries (DPI), as part of its management of the Drought Interdepartmental Coordination Group (DICG), should:

- improve current performance reporting of drought assistance programs to include the reporting of outcomes and their extent of alignment with program aims and objectives
- develop a standard method for evaluating key drought assistance programs, in conjunction with relevant agencies.
At a glance

Background
The Department of Sustainability and Environment (DSE) and the Department of Primary Industries (DPI) administer the rebate for fixed water charges (water rebate) and the municipal rate subsidy respectively. A decision is taken annually by government on whether both schemes will continue. Each has engaged third parties to administer the schemes for rural communities.

Findings
• DPI has managed the municipal rate subsidy well with appropriate controls over expenditure to allow effective delivery of the subsidy through councils.
• DSE has a weaker control environment with further clarification needed on the application of eligibility criteria and no program of audits to provide assurance over the regularity of this category of expenditure.
• Aspects of Goulburn-Murray Water’s administration of the rebate for fixed water charges warrant improved risk management, payment checking and data security.

Recommendations
DSE should improve the planning and control framework for the rebate for fixed water charges and, in particular:
• improve consultation and communication with water corporations when planning and implementing any changes to the scheme’s administration
• implement a robust risk management framework for the scheme’s operation and delivery
• closely monitor the administration of the water rebate to identify any inconsistencies or inaccuracies in interpretation of the eligibility criteria by water corporations
• enforce the requirements of the deed of grant with each water corporation, particularly for reporting and audit of the administration of the scheme to provide assurance over the expenditure of public funds.
5.1 Introduction

The government has many drought assistance measures, including rebate for fixed water charges (water rebate) and municipal rate Subsidy. Since 2005–06, over $176 million has been spent on these two schemes.

Each has a lead agency that determines eligibility and oversees the program, and agents that administer the schemes, pay customers, and invoice the lead agency for reimbursement.

Municipal rate subsidy

The lead agency for the municipal rate subsidy is the Department of Primary Industries (DPI) and the delivery agents are local councils. Councils are required to maintain adequate records to support the details on each claim and to verify that subsidies were only provided to eligible ratepayers. Councils receive a 3.5 per cent administration margin for the subsidies. Between 2005–06 and 2008–09, $40 million (as at February 2009) in municipal rate subsidies has been provided to around 9 500 customers.

Rebate for fixed water charges

The lead agency for the water rebate is the Department of Sustainability and Environment (DSE) and the delivery agents are rural water corporations. DSE has signed a deed of grant (the deed) with each of the water corporations. These deeds require water corporations to provide a statement certifying that funds have been expended solely for their intended purpose, have complied with the deed, and a financial report detailing expenditure in relation to the rebate scheme. Over the years 2006–07 to 2008–09, $136 million (as at February 2009) has been paid by DSE to water corporations, for rebates for around 47 000 customer accounts.

5.2 Findings

5.2.1 Engagement of lead agencies with delivery agents

As the lead agencies, DPI and DSE should engage its stakeholders in developing and implementing the scheme to better assure they understand the requirements and administer the initiative as intended.

Department of Primary Industries

DPI has an effective relationship with councils. This is illustrated by the effectiveness with which an anomaly in the scheme’s eligibility requirements identified by councils was addressed. DPI appropriately revised the criteria for timing and equity in consultation with the Municipal Association of Victoria.
DPI’s structure assists communication with stakeholders. It has a dedicated drought project manager, whose role is to manage the municipal rate subsidy scheme. The manager responds to requests from council staff and ratepayers for advice and information about eligibility. This provides stakeholders with a reliable means to raise issues.

**Department of Sustainability and Environment**

DSE sends a letter to water corporations outlining program details including eligibility criteria. DSE has clarified interpretation of eligibility criteria in cases where this had been sought by water corporations. However, closer monitoring of the administration of the scheme by DSE should identify inconsistencies and inaccuracies in the interpretation of the eligibility criteria by water corporations.

There is limited evidence of DSE’s engagement of, and consultation with, water corporations in developing and refining the water rebate scheme. It is evident the initial eligibility criteria were developed with limited consultation with water corporations. As a result, issues have arisen over interpretation of eligibility criteria such as the appropriateness of making payments for publicly listed companies and uncertainties over the interpretation of water allocations.

Issues around lack of clarity of eligibility criteria have been exacerbated by the fact that water rebates are not ongoing but are announced each year. Consequently, the water corporations have little incentive to plan long term or control the rebate’s administration. Furthermore, the annual announcement about the scheme’s extension is in October. As water corporations invoice their customers annually in December, this leaves little time for planning. Goulburn-Murray Water had in the past delayed invoicing customers to allow accounts to be raised in conjunction with the rebate.

### 5.2.2 Oversight of scheme administration

In developing rebate schemes to be delivered by a third party, lead agencies should establish a control environment to provide effective oversight of the administration of payments to provide assurance that the scheme is being administered in cost-effective manner. This should include:

- a clear statement of the requirements to be met by delivery agencies such as the extent of reporting on expenditure
- clear criteria and accompanying administrative guidance for determining eligibility for the rebates/subsidies.
Department of Primary Industries

DPI has developed sound monitoring processes over payments made to councils. DPI has also developed administrative guidelines for councils regarding the administration of the municipal rate subsidy. The guidelines include eligibility criteria and arrangements to claim reimbursements from DPI. The guidelines also impose obligations on councils to maintain adequate records to support the details on each claim and to verify that subsidies are only provided to eligible rate payers.

In 2006 and 2008 DPI audited six councils to examine whether they were issuing payments in line with DPI’s requirements.

These audits were instigated by DPI’s Audit and Risk Management Standing Committee (ARMSC), which reviewed all the department’s drought assistance grants. When the audits were finished, DPI staff had to write a plan showing how they intended to implement the recommendations.

The audits found no significant issues, however, a number of weaknesses were identified such as non-compliance with administrative guidelines. DPI subsequently made a number of recommendations it communicated to councils. DPI has also undertaken some follow-up work at selected councils to ensure recommendations from audits are being implemented.

5.2.3 Department of Sustainability and Environment

The deed agreed between DSE and each of the water corporations makes provisions for audits of the water corporations to be undertaken. DSE has not audited the administration of the water rebate. During the course of the audit, DSE advised they will conduct an audit of water rebates following receipt of final invoices from water corporations for 2008–09.

A program of audits would provide some assurance over the extent to which the various water corporations have a consistent interpretation of DSE’s eligibility criteria and the adequacy of the controls in place to minimise the potential for fraudulent activity by rebate customers or water corporations.

DSE does not have robust processes and controls to check the integrity of the water corporations’ invoices and supporting documentation. DSE made payments of approximately $40 Million to two water corporations without all the documentation required under the deed. Given the funds involved, it is important that DSE has sound controls to verify information from water corporations.

DSE does not:

- adequately review each water corporation’s processes for checking eligibility
- check payments made from rural water corporations to customers.
5.3 Review of water corporations

Given the lack of reliance that can be placed on DSE’s control framework, further testing was conducted at Goulburn-Murray Water and Grampians Wimmera Mallee Water to examine:

- the control environment under which water rebates are administered, such as risk management arrangements
- rebate payment process
- the assessment of eligibility
- invoicing and reporting arrangements, including the accuracy and reliability of reports and data provided to DSE on payments made.

5.3.1 The control environment

Audit examined the control environment of Goulburn-Murray Water and Grampians Wimmera Mallee Water, in particular the internal controls applied by each water corporation to assist them in administering the water rebate. Water corporations’ internal policies and guidelines and the extent to which effective risk management arrangements were in place were assessed.

Policies and guidelines

Neither water corporations have internal policies or guidelines on how to administer the rebate. Both rely largely on DSE’s eligibility criteria and Frequently Asked Questions sheet, despite there being some areas of uncertainty when water corporations are interpreting eligibility criteria.

Grampians Wimmera Mallee Water are currently upgrading their customer billing system to incorporate the water rebate and will reflect this in its policy framework.

Risk management

Both Goulburn-Murray Water and Grampians Wimmera Mallee Water had risk management plans. However, identified risks did not include the water rebate. It is important that the rebate be in the risk management plans as it involves substantial public funds, particularly at Goulburn-Murray Water. The other potential risk is to the reputation of the water corporations through incorrect interpretation of eligibility.

5.3.2 Rebate for fixed water charges payment process

Processes used by Goulburn-Murray Water and Grampians Wimmera Mallee Water were examined to determine their level of reliability in determining customer eligibility and in making rebate payments.
Monitoring the integrity of payments and data
No major concerns about the integrity of the payments and data were identified in a sample of cases. There is, however, room for improvement, which would give the water corporations greater assurance.

Goulburn-Murray Water has approximately 30,000 customers of whom about 20,000 are eligible for the rebate. Goulburn-Murray Water randomly selects one to two invoices per district for a manual check before they are sent to customers with the rebate applied. This equates to 12 invoices out of about 20,000. A sample of this size provides Goulburn-Murray Water with little assurance that rebate amounts are applied correctly. While Goulburn-Murray Water has a large customer base, a more representative sample is necessary.

By contrast in 2008–09, Grampians Wimmera Mallee Water selected 10 per cent of all invoices for manual checking prior to sending. This was about 600 customers which provides a reasonable level of assurance.

Security of customer data
The audit found that Goulburn-Murray Water should strengthen data security. The staff member who changes the database affecting rebate payments can also approve changes. A senior staff member should approve any modifications to data.

5.3.3 Process for interpreting eligibility criteria
According to the DSE’s criteria, eligible rural water customers in 2008–09 include the following customers receiving less than 30 per cent of their water entitlement based on the water allocation announcement of 1 December 2008:

- irrigators supplied by regulated systems
- regulated surface water diverters
- stock and domestic customers supplied by regulated systems
- groundwater diverters within the Water Supply Protection Areas
- unregulated surface water diverters.

While VAGO found that rebates were applied correctly for payment amount and eligibility, in the cases reviewed, there are areas for improvement.

Publicly listed companies and their subsidiaries are not eligible for a rebate. These are defined as companies listed on the Australian Stock Exchange. It is the responsibility of water corporations to determine whether the companies within their regions are publicly listed.

DSE has advised that managed investment schemes are also ineligible; however, DSE’s eligibility criteria do not make this explicit.
Managed investment schemes cover a variety of investments and include trusts that may have publicly listed shares such as Australian equity trusts. However, there are many managed investment schemes that include agricultural activities such as horticulture, aquaculture and commercial horse breeding.

DSE had not clearly guided rural water corporations on how to identify managed investment scheme customers, or what types of managed investment schemes were eligible or ineligible. Rural water corporations do not, therefore, have adequate means to identify managed investment schemes.

For example, the audit found that Grampians Wimmera Mallee Water had paid more than $55,000 to a managed investment scheme in 2007–08 and 2008–09, the only one on its customer database. When submitting these invoices to DSE, these payments were specifically disclosed to DSE. The audit also found that another water corporation had paid more than $26,000 to a managed investment scheme in 2009.

Goulburn-Murray Water had no processes in place for determining whether customers operated as a managed investment scheme, and was also not aware that managed investment schemes were ineligible for the water rate rebate.

There is also a lack of clarity in interpreting the eligibility criteria in terms of water allocation versus water supply. At Grampians Wimmera Mallee Water, in a number of cases the water received differed from the announced allocation. Grampians Wimmera Mallee Water applied the rebate to those customers receiving less than 30 per cent of their water supply, even if the region’s water allocation was set above 30 per cent.

While this interpretation of the criteria seems sensible, it should be clarified by DSE. Grampians Wimmera Mallee Water sought clarification from DSE in applying the 2008–09 eligibility criteria in light of issues facing the water allocation frameworks for the Wimmera Mallee system. Grampians Wimmera Mallee Water advised they will continue to clarify the interpretation of the criteria with DSE to the extent that the rebate continues in future years.

5.3.4 Invoicing and reporting

The deeds set out reporting requirements for water corporations. VAGO found that most report to DSE with the required information.

Goulburn-Murray Water was not, however, reporting to DSE on all requirements. In particular, it has not given the number and names of customers receiving a rebate above $20,000. DSE nevertheless paid all invoices. Goulburn-Murray Water has since supplied this information.
5.4 Conclusion

Reliance can be placed on DPI's control framework to provide an adequate level of assurance that payments regarding the municipal rate subsidy were made in accordance with the schemes requirements.

Limited reliance only could be placed on DSE’s control framework over water rebates. This reduced the effectiveness of water corporations’ administration of the water rebate scheme. Further, in the case of Goulburn-Murray Water, there should be a strengthened control environment.

Recommendations

5.1 DSE should improve the planning and control framework for the rebate for fixed water charges (water rebate) and, in particular:
- improve consultation and communication with water corporations when planning and implementing any changes to the scheme’s administration
- implement a robust risk management framework for the scheme’s operation and delivery
- closely monitor the administration of the water rebate to identify any inconsistencies or inaccuracies in interpretation of the eligibility criteria by water corporations
- enforce the requirements of the deed of grant with each water corporation, particularly for reporting and audit of the administration of the schemes to provide assurance over the expenditure of public funds.

5.2 Goulburn-Murray Water should upgrade control procedures by:
- including the administration of the water rebate in its risk management plan
- increasing the sample size for checking that the water rebate has been correctly applied
- improving controls over data security.

5.3 Grampians Wimmera Mallee Water should include the administration of the water rebate in its risk management plan.
Appendix A.

Victorian drought assistance programs

Figure A1
Drought assistance programs actual expenditure
2006–07 and 2007–08

<table>
<thead>
<tr>
<th>Description</th>
<th>Actual ($million) 2006–07</th>
<th>Actual ($million) 2007–08</th>
<th>Budget ($million) 2008–09</th>
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<td>GWMW water tank rebate</td>
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<td>Four additional rural financial counsellors</td>
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<td>Sustainable farm families</td>
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<td>Rural futures forums</td>
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<tr>
<td>Agriculture drought recovery response</td>
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<td>Goulburn and Murray irrigation horticulture industry assistance</td>
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<td>On-farm productivity grants</td>
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<td>Additional extension for decision support</td>
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<td>Communication strategy</td>
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<td>Drought extension support</td>
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<td>Extending the case management approach to supporting farmers through drought and adjustment</td>
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<td><strong>Department of Sustainability and Environment</strong></td>
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<td><strong>Rebate for fixed water charges</strong></td>
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<td>Using groundwater to secure urban water supplies</td>
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<td>Pumping the Waranga Basin</td>
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<td>CMA drought employment program</td>
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Effectiveness of Drought Assistance Measures 31
### Figure A1
Drought assistance programs actual expenditure
2006–7 and 2007–08 – continued

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<tr>
<th>Description</th>
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<th>Actual ($million) 2007–08</th>
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<td>Tackling rural poverty</td>
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<td>Tackling mental health</td>
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<td>Supporting families through drought</td>
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<td>Supporting the human side of drought</td>
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<td>Sustaining community wellbeing</td>
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<tr>
<td>(Drought Counselling assistance)</td>
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<td>Supporting families through drought (Supporting Communities to tackle rural poverty)</td>
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<td>Mental health early intervention teams</td>
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<td>Sustaining community wellbeing extension</td>
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<td>Building resilient communities</td>
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<td>Drought relief for country sports program</td>
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<td>Schools drought relief package</td>
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<td><strong>Totals line</strong></td>
<td>113.5</td>
<td>156.3</td>
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Note: (a) In 2005–06, $3.96 million was expended on the municipal rate subsidy
Source: Victorian Auditor-General’s Office, using Department of Primary Industries’ data.
### Auditor-General’s reports

#### Reports tabled during 2008–09

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Auditor-General’s reports

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