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Performance Audit

The Ethanol Production Grants Program

Department of Industry and Science

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Canberra ACT
28 January 2015

Dear Mr President
Dear Madam Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Industry and Science titled *The Ethanol Production Grants Program*. 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



Ian McPhee
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

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For further information contact:

**The Publications Manager
Australian National Audit Office
GPO Box 707
Canberra ACT 2601**

Phone: (02) 6203 7505

Fax: (02) 6203 7519

Email: publications@anao.gov.au

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Audit Team

Julian Mallett

Chris Preston

Debbie Moore

Donna Burton

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Abbreviations

ABARE	Australian Bureau of Agricultural and Resource Economics (now The Australian Bureau of Agricultural and Resource Economics and Sciences)
ATO	Australian Taxation Office
BCGP	Biofuels Capital Grants Program
BREE	Bureau of Resources and Energy Economics
BTRE	Bureau of Transport and Regional Economics
CGGs	Commonwealth Grant Guidelines
CNG	Compressed Natural Gas
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DITR	Department of Industry, Tourism and Resources
EDP	Ethanol Distribution Program
EPGP	Ethanol Production Grants Program
KPI	Key Performance Indicator
LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas
PM&C	Department of the Prime Minister and Cabinet
RET	Department of Resources, Energy and Tourism

Glossary

Biofuel	Liquid fuel derived from biological material such as waste plant and animal matter. The two main types of biofuels are biodiesel and ethanol.
E10	A blend of 10 per cent ethanol and 90 per cent petrol
E100	Pure ethanol fuel

Summary

Summary

Introduction

1. Ethanol or ethyl alcohol (molecular formula C_2H_5OH) is a colourless liquid and is the principal form (and intoxicating agent) of alcohol found in alcoholic beverages. It can also be used as a solvent, an antiseptic and as a fuel. When used as a fuel, it can either be used 'neat' (known as E100) or blended with petrol. In Australia, ethanol is typically blended with petrol at a concentration of 10 per cent ethanol and 90 per cent petrol—known as E10. Most modern vehicles available in Australia can operate successfully on E10; at concentrations higher than this, engines may require modification.

2. Since 1980, successive Australian governments have introduced initiatives aimed at assisting the development of an Australian ethanol industry¹, including the Ethanol Bounty which operated from 1994–1996 and the Ethanol Production Grants Program from 2002 to the present. In addition to industry development, other indirect outcomes—such as regional development, environmental and health benefits—were also advanced in support of domestically-produced ethanol as a fuel.

The Ethanol Production Grants Program

3. In September 2002, the then Prime Minister, the Hon. John Howard MP, announced that as part of a strategy to encourage the use of biofuels in transport, the Australian Government would abolish the exemption from fuel excise for ethanol and impose an excise at the same rate as for petrol (38.143 cents per litre). At the same time, the Government introduced a 'production subsidy' to be paid to producers of ethanol in Australia (but not to importers of ethanol). For existing Australian producers of ethanol, the effect of this government decision was that while they would be required to pay the excise to the Australian Taxation Office (ATO), they would then be reimbursed in full through the Ethanol Production Grants Program (EPGP).

4. When the EPGP was first established, program documentation did not include explicit objectives or outcomes, but referred to the terms of the Prime

1 These have included exemption of ethanol from excise (1980); introduction of an ethanol bounty (1994); the Biofuels Capital Grants Program (BCGP) (2003); the Ethanol Distribution Program (EDP) (2006); and the Ethanol Production Grants Program (EPGP) (2002).

Minister’s media release when announcing the program. A specific Program objective and outcomes were introduced in July 2012 in the following terms:

Program objective

The objective of the Program is to support production and deployment of ethanol as a sustainable transport fuel in Australia.

The Program will provide fuel excise reimbursement of 38.143 cents per litre for ethanol produced and supplied for transport use in Australia from locally derived feedstocks.

Program outcome

The intended outcome of the Program is to:

- (a) Encourage the use of environmentally sustainable fuel ethanol as an alternative transport fuel in Australia;
- (b) Increase the capacity of the ethanol industry to supply the transport fuel market; and
- (c) Improve the long term viability of the ethanol industry in Australia.

5. The EPGP is a demand-driven grants program. Eligible producers that have a funding agreement with the Commonwealth are reimbursed for excise paid to the ATO, usually on a weekly basis. To be eligible for grants under the EPGP, applicants must:

- be an Australian entity incorporated under the *Corporations Act 2001*;
- produce and supply ‘eligible ethanol’²; and
- not have been named as an entity that has not complied with the *Equal Opportunity for Women in the Workplace Act 1999*.³

6. Applications for funding can be submitted for assessment at any time. Under all EPGP program guidelines, approved by the relevant Minister at certain times, authority for making decisions on program eligibility and funding has been delegated to departmental officials. The EPGP program

2 ‘Eligible ethanol’ is defined in the EPGP’s administrative guidelines as ethanol produced in Australia from biomass feedstock or urban waste on which excise has been paid to the Australian Taxation Office and does not include any ethanol that has been imported into Australia.

3 This Act imposes certain obligations on employers in order to improve gender equality outcomes within their workplaces. Employers which fail to meet their obligations may be named in Parliament and, consistent with the Australian Government’s Procurement Rules, will not be permitted to enter into contracts with the Australian Government.

guidelines provide that the program must be administered in accordance with the Australian Government's financial management and accountability framework, including the Commonwealth Grant Guidelines.⁴

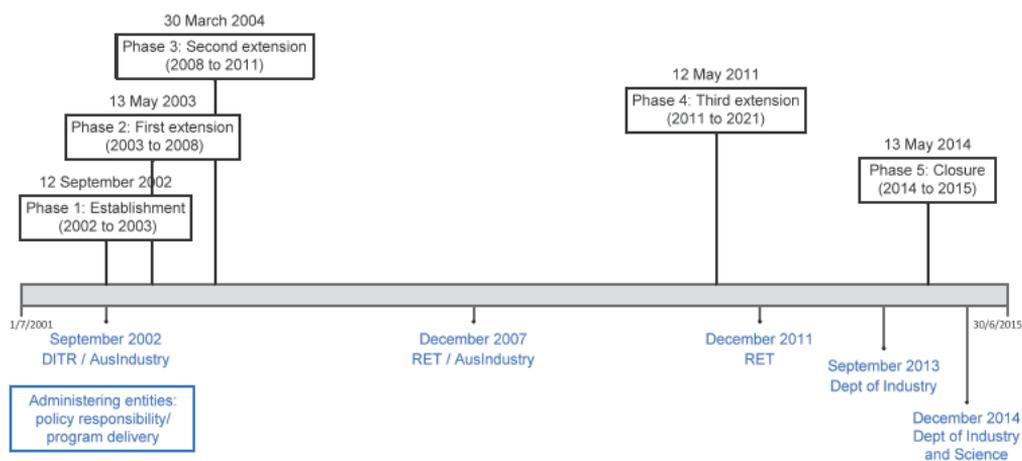
7. When first introduced, the EPGP was administered by the then Department of Industry, Tourism and Resources, and later by the then Department of Resources, Energy and Tourism (RET). At the time of this audit, the program was administered by the Department of Industry and Science (Industry).⁵ For simplicity, the title 'Industry' will be used throughout this report to refer to the present administering department as well as its predecessors, unless otherwise specified.

8. Since its introduction in 2002, originally as a short-term subsidy 'while longer term arrangements are considered by the government', the EPGP has been extended three times: in 2003, 2004 and 2011. Figure S.1 shows a timeline of the EPGP, key decision points for each phase and the administering departments over time.

4 EPGP Program Administrative Guidelines, paragraph 8.2, 12 June 2014; EPGP Program Administrative Guidelines, paragraph 8.2, July 2012. The November 2011 program guidelines also noted that the program would be administered 'in accordance with Commonwealth grants requirements', p. 5.

5 There have been a range of entities involved in both the administration and policy aspects of the EPGP. When the EPGP was established, the Prime Minister announced that it would be administered by the then Department of Industry, Tourism and Resources (DITR), with delivery of the program carried out by AusIndustry (a division of DITR). Following the November 2007 election and consequent Machinery of Government changes, the newly-created Department of Resources, Energy and Tourism (RET) assumed policy responsibility for the EPGP, with AusIndustry continuing to perform the program delivery role. From December 2011, RET assumed both policy and program delivery responsibilities for the EPGP. After the September 2013 election, RET was abolished and its resources and energy functions, including the EPGP, were transferred to the Department of Industry. In December 2014, the department was renamed the Department of Industry and Science.

Figure S.1: EPGP key decision points and administering departments



Source: ANAO.

9. The EPGP has had five participants. When the program commenced, it had two initial participants, increasing to five participants for a single year (2008–09), then declining and remaining at three participants since. Between 2002–03 and 2013–14, one participant (Honan Holdings Pty Ltd) received \$543.4 million (70.2 per cent of all program funding).

10. At a number of key program phases, reviews of the EPGP have been commissioned. In February 2014, an assessment by the Bureau of Resources and Energy Economics (BREE)⁶, a unit within Industry, found that:

- while the annual cost of the program had been significant, regional employment and greenhouse gas abatement benefits had been modest;
- the health benefits that accrue from reduced air pollution are also modest and declining;
- there would appear to be no net benefit for agricultural producers;
- while the program supported an additional lower priced fuel product, the benefits to motorists were less than they should have been; and
- there was no evidence that provision of support for the Australian ethanol industry provided downward pressure on petrol prices.

6 BREE, *An assessment of key costs and benefits associated with the Ethanol Production Grants program*, February 2014.

11. In the 2014–15 Budget, the Government announced the closure of the EPGP, and program payments will cease with effect from 1 July 2015. In parallel, the fuel excise on domestically produced ethanol will be reduced to zero from 1 July 2015 and then increase by 2.5 cents per litre per year for five years from 1 July 2016 until it reaches 12.5 cents per litre.

12. The Australian Government’s total expenditure on the EPGP program since 2002–03, including estimated costs in 2014–15, is expected to be some \$895 million.⁷

Audit approach

Objective, criteria and scope

13. The objective of the audit was to examine the effectiveness of Industry’s administration of the EPGP, including relevant advice on policy development.

14. To form a conclusion against the objective, the following high level audit criteria were used:

- the grant application process was accessible and attracted high quality applications;
- the assessment process adopted was consistent, transparent and cost effective;
- advice to the delegate was complete and robust and funding decisions were sound;
- funding distribution is consistent with the program’s objectives and appropriate arrangements are in place to manage successful projects;
- appropriate monitoring and reporting arrangements are in place; and
- relevant government entities provided sound advice to assist with policy development and government decision making.

15. The ANAO examined program administration since 2007–08, given the difficulty in identifying and locating detailed records relating to the program’s early administration. However, the ANAO’s examination of the policy development process and decisions by government covers the period from the

⁷ This includes actual expenditure of \$773.1 million between 2002 and 2013–14 and \$122.1 million in estimated expenditure in 2014–15.

EPGP's establishment in 2002. The ANAO does not have a role in commenting on the merits of government policy.

16. This audit does not involve an assessment of the administration of other (non-EPGP) government initiatives to support the Australian ethanol industry, except to the extent necessary for an understanding of the history of the EPGP.

Methodology

17. In conducting the audit, the ANAO reviewed: documents of the departments of Industry and Science, the Prime Minister and Cabinet, the Treasury and Finance, including policy documents, ministerial correspondence, reports, guidelines and operational documents; examined relevant Cabinet submissions, memoranda and decisions; interviewed departmental staff; and examined the grants administration process. The ANAO also invited EPGP recipients (see Table 1.1) to provide representations about their experience as grant recipients and, in particular, Industry's administration of the program; however, no submissions were received.

Overall conclusion

18. Originally introduced in 2002-03 as a short term (12 month) subsidy payable to eligible domestic ethanol producers, the Ethanol Production Grants Program (EPGP) was extended by successive Australian Governments and will end on 30 June 2015 at a cost to the Commonwealth of some \$895 million over the program's life. The key program objective was to support the production and deployment of ethanol produced from locally derived feedstocks as a sustainable transport fuel in Australia. Intended outcomes were to: improve the long term viability of the ethanol industry in Australia; increase the capacity of the ethanol industry to supply the transport fuel market; and encourage the use of environmentally sustainable fuel ethanol as an alternative transport fuel in Australia. Five program participants have received financial assistance under the EPGP, which is a grants program currently administered by Industry.

19. Overall, Industry's administration of the EPGP since 2007-08, the period examined in this performance audit, has been generally effective. EPGP program arrangements were generally fit for purpose and largely consistent with the Australian Government's grants administration framework. The department also implemented a sound arrangement for monitoring grant recipients' compliance with key program requirements. Had the program

continued beyond its planned closure in 2014-15, there would have been opportunities for the department to improve its public performance reporting on achievement against the program's objectives and outcomes, which is currently limited to reporting on the number of companies that receive payments under the program.

20. The Australian Government's recent decision to close the EPGP was informed by a consistent body of analysis and advice—provided to successive governments since the program's earliest days—drawing attention to shortcomings in the overall policy approach and the likelihood that program costs would exceed benefits. Prior to the EPGP's establishment and at key decision points, the administering department and central co-ordinating agencies⁸ offered candid advice on value for money, drawing on past Australian and international experience and the findings of two key reviews (in 2008 and 2014) which had concluded that the benefits of the program were modest and had come at a high cost. These assessments of value for money are underlined by the program's limited success in achieving key objectives and outcomes. After 12 years of operation and some \$895 million in government support directed towards improving the long-term viability of the domestic ethanol industry, in 2014 only three domestic producers (up from two in 2002) were operating,⁹ and an expanded Australian ethanol industry based on market priced feedstock was considered unlikely to be commercially viable in the absence of the EPG rebate.¹⁰

21. The ANAO has not made recommendations in this audit, as the EPGP is scheduled to close from 30 June 2015. While there was scope for the administering departments to develop a more effective performance reporting framework as a basis for assessing outcomes, Industry and the central agencies did provide candid advice to government on the modest performance of the program against its objectives, drawing on Australian and international experience and two reviews of the program; with decisions to continue the program until 2014–15 made by successive governments.

8 The Department of the Prime Minister and Cabinet, the Treasury and the Department of Finance.

9 In 2002–03, it was suggested that up to a further 15 domestic ethanol plants might be established across Australia.

10 BREE, *An assessment of key costs and benefits associated with the Ethanol Production Grants program*, February 2014, p. 4.

Key findings by chapter

Achievement of program objectives (Chapter 2)

22. The Australian Government announced the closure of the Ethanol Production Grants Program (EPGP) in the context of the 2014-15 Budget. While originally established as a one year assistance measure, the EPGP operated for 12 years at a cost of some \$895 million, with successive governments extending the program on three occasions.

23. The EPGP is a grants program currently administered by the Department of Industry and Science (Industry). The 2012 program objective was to support the production and deployment of ethanol produced from locally derived feedstocks as a sustainable transport fuel in Australia. The intended program outcomes were to: improve the long term viability of the ethanol industry in Australia; increase the capacity of the ethanol industry to supply the transport fuel market; and encourage the use of environmentally sustainable fuel ethanol as an alternative transport fuel in Australia.

24. At the outset of the program and at key phases in the program's life, the administering department and central co-ordinating agencies consistently highlighted shortcomings in the overall policy approach and drew attention to the EPGP's limited success in achieving its program objectives. In their advice, entities drew on international experience and available Australian evidence, including experience with the earlier Ethanol Bounty Scheme on which the EPGP was largely modelled. A 1996 program evaluation of the Ethanol Bounty Scheme had observed that it would not achieve its objective and should be discontinued.

25. At a number of key program phases, external and internal reviews were commissioned to inform government decisions on the EPGP. In particular, a 2014 report by Industry's Bureau of Resources and Energy Economics (BREE) provided a concise high level assessment of the program's costs and benefits¹¹, leading soon after to the Australian Government's decision to close the program.¹²

11 BREE, *An assessment of key costs and benefits associated with the Ethanol Production Grants program*, February 2014.

12 The 2014 National Commission of Audit also recommended that the government end the program.

26. In 2013-14, only three ethanol producers were in receipt of EPGP support. When the program was introduced in 2002-03, it was suggested that up to a further 15 domestic ethanol plants might be established across Australia. While the program has directly supported a small number of grant recipients¹³, in some cases for an extended period¹⁴, the program has had limited success in achieving the program outcome of improving the long-term viability of Australia's domestic ethanol industry. In 2014, the BREE considered that an expanded Australian ethanol industry based on market priced feedstock was considered unlikely to be commercially viable in the absence of the EPG rebate.¹⁵ The BREE further concluded that realisation of expected indirect benefits—including regional development, environmental and health benefits—has been modest at best, and/or at a much higher cost than could be achieved using more direct forms of government support.

Administration of the EPGP (Chapter 3)

27. In September 2002, the then Prime Minister, the Hon. John Howard MP, announced publicly that the EPGP would commence within a week, providing the administering department¹⁶ with very limited opportunity to plan for program implementation. The department focussed initially on establishing funding arrangements with existing producers, consistent with the core program parameters set by Ministers. When the program was subsequently extended, the department formalised several of the program's key administrative supports, such as application forms and program guidelines, placing its grants administration on a sounder footing. The program guidelines examined by the ANAO were clear and generally reflected the requirements of the grants administration framework. While the program guidelines referred to the Prime Minister's 2002 statement about the program, an explicit program objective and set of program outcomes were only developed in the course of preparing the July 2012 guidelines.

13 In all, five producers have received assistance at various times under the program.

14 Two recipients have participated for the duration of the program.

15 The BREE noted that since the inception of the EPGP, ethanol production for transport fuel in Australia had grown from 56.8 million litres to a peak of 319 million litres in 2010–11. Since then, production and consumption had fallen to 284 million litres in 2012–13. The decline in market sales of E10 over the last two years, despite its discounted bowser price, suggested that a sustainable (i.e. non subsidised) market for ethanol blended fuels would be smaller than the current EPGP supported market, particularly as the majority of motorists appeared to display a preference for unblended petrol for performance or other reasons. BREE, *ibid.*, (pp. 3–4).

16 The then Department of Industry, Tourism and Resources.

28. The EPGP is a demand-driven grants program which allows for applications to be submitted at any time. Since its establishment, only two formal applications have been submitted to the administering department—in 2006 and 2008—as the three companies initially contacted in 2002 were directly invited to enter into a funding agreement.

29. As part of its assessment process for the 2008 application, the administering department did not document its assessment of the applicant's claims against all of the program's mandatory criteria. In particular, the department did not advise the program delegate whether the applicant met or was likely to meet the 'eligible ethanol' criterion¹⁷—a key consideration in assessing whether the application would represent a 'proper use' of Commonwealth resources.¹⁸ In this case, as the applicant advised that it had not yet commenced production of ethanol, it would have been appropriate for the delegate to consider approving EPGP funding on a conditional basis, subject to further inquiries in due course regarding the production of 'eligible ethanol'. In the event, the department adopted a comparable course of action when, 18 months later in March 2010, it conducted a compliance audit of the then grant recipient to satisfy itself that all EPGP payments had been for 'eligible ethanol'. The department's approach could usefully have been documented as part of the approval process for the grant, to help the department demonstrate its consideration of 'proper use' before payments were made.¹⁹

30. The ANAO examined all 20 of the EPGP funding agreements, including variations, executed since 2007-08 and found that the key financial framework approval requirements had been observed in 13 of these agreements. Where required, Regulation 10 approvals had also been obtained.²⁰ However, departmental records could not demonstrate that the relevant expenditure

17 See footnote 2.

18 The assessment of 'proper use' was a key feature of the Australian Government's financial framework applying at the time. FMA Regulation 9 provided that: an approver must not approve a spending proposal unless the approver is satisfied, after making reasonable inquiries, that giving effect to the spending proposal would be a proper use of Commonwealth resources. Proper use meant efficient, effective, economical and ethical use not inconsistent with Commonwealth policies.

19 The financial framework applying at the time required an agency approver to consider proper use and provide a financial approval before commitments of public money were entered into and any payments were made.

20 Regulation 10 of the former financial management framework required the Finance Minister or a delegate to provide written agreement before an agency entered into an arrangement where there was insufficient available appropriation to cover expenditure that might become payable under the arrangement.

approvals had been prepared for seven of these 20 funding agreements prior to their execution.

31. Departmental processes for accepting, verifying and paying EPGP claims by grant recipients have been assessed by the ANAO as part of its financial assurance audit process over each of the last six years, providing reasonable assurance that payments have been correctly and accurately made and reconciled each quarter with the ATO's records. In addition, a sound arrangement was established for ongoing monitoring of recipients' compliance with the key program requirements, including through a program of external and internal compliance reviews.

32. Departmental reporting on the EPGP has been mixed. Reporting requirements set out in participants' funding agreements facilitated ongoing monitoring of program administration. However, the reporting requirements contained in the funding agreements were not designed to assist the administering department monitor achievements against the program's intended outcomes and claimed benefits (such as the impact of the program on regional employment).

33. Further, for the first seven years of the program's operation, there were no program-level key performance indicators (KPIs) established for the purposes of internal or external reporting. In 2009 (with revisions made in 2012) internal KPIs were developed but there was no indication that they were used to report to senior departmental management or the Minister to assist with an assessment of whether the EPGP was achieving its objectives. Until 2014–15, public reporting related to 'Delivery of the Ethanol Production Grants Program', a broad activity measure which offered no insight into program performance. A revised KPI was published in Industry's 2014–15 Portfolio Budget Statements, relating to the number of companies that received payments under the program. This KPI offered some improvement over the previous measure but nonetheless provided a very limited basis for assessing achievement of the program's objectives and outcomes released in 2012.

34. The Government announced the closure of the EPGP in the 2014-15 Budget, effective from 30 June 2015. Internal advice to the program delegate in May 2014 indicated that the department planned a thorough end of program evaluation, incorporating a final compliance audit, be undertaken in the final quarter of 2014–15.

Summary of entity responses

35. The proposed audit report issued under section 19 of the *Auditor-General Act 1997* was provided to Industry. In addition, relevant extracts of the proposed report were provided to the departments of the Prime Minister and Cabinet, the Treasury and Finance.

36. A summary of Industry's response to the proposed audit report is below, with the full response at Appendix 1.

The Ethanol Production Grants Program commenced in September 2002 as a measure to further assist the development of an Australian ethanol industry. The Government announced the closure of the Program from 1 July 2015.

The Department notes the ANAO has concluded the department's administration of the Program has been effective. The report also notes the department's intent to conduct an end-of-program evaluation, incorporating a final compliance audit of grant recipients.

Audit Findings

1. Introduction

This chapter provides background information on the use of ethanol as a transport fuel in Australia and summarises government support for ethanol production in Australia, including the Ethanol Production Grants Program. It also outlines the audit approach including its objective, scope and methodology.

Background

1.1 Ethanol or ethyl alcohol (molecular formula C_2H_5OH) is a colourless liquid. It is the principal type (and intoxicating agent) of alcohol found in alcoholic beverages. It can also be used as a solvent, an antiseptic and as a fuel.²¹

1.2 Ethanol's use as a fuel for internal combustion engines dates back to the early nineteenth century. In 1908, when the Model T Ford was introduced, early models ran on ethanol, with adjustable carburettors allowing them to be run on petrol as an alternative.²²

1.3 Ethanol can be used as a fuel for motor vehicles, either 'neat' (known as E100) or when blended with petrol. Most modern vehicles available in Australia will operate satisfactorily on a blend of 10 per cent ethanol and 90 per cent petrol (E10). At blends higher than this, engines may need modification or damage may occur.

1.4 In Australia, fuel for use in motor vehicles (especially petrol) has been subject to excise²³ since 1929. Between 1929 and 1959, excise on fuel was hypothecated (earmarked) for road funding but in 1959, hypothecation was abolished and the revenue became a source of general revenue.

1.5 Since 1980, successive Australian governments have introduced initiatives in various forms aimed at assisting the development of an Australian ethanol industry.²⁴

21 Wikipedia, *Ethanol*, <http://en.wikipedia.org/wiki/Ethanol> [accessed 13 August 2014].

22 Wikipedia, *Timeline of alcohol fuel*, <http://en.wikipedia.org/wiki/Timeline_of_alcohol_fuel> [accessed 14 August 2014]

23 Excise is a tax imposed on certain goods which are produced domestically as opposed to duty which is a tax imposed on imported goods.

24 Many other governments internationally have provided support for ethanol production, as discussed in Appendix 1.

Australian Government support for ethanol production

Early government initiatives

Excise exemption

1.6 In February 1980, the then (Fraser) Government abolished the \$19.25 per litre excise on ethanol when used as a fuel, to 'encourage research into the production of ethanol as a fuel in internal combustion engines'.²⁵

Ethanol bounty

1.7 In 1994, the then (Keating) Government introduced a bounty²⁶ 'on the production of certain fuel ethanol in Australia to assist in the development of a competitive, robust and ecologically sustainable fuel ethanol industry'.²⁷ The bounty scheme provided 18 cents per litre payable to registered companies or persons which produced fuel ethanol for use in Australia's transport industry. Although \$25 million was allocated to the three year scheme, only \$3.1 million in total claims had been paid by the end of its second year. In 1996, the then Department of Primary Industries and Energy undertook an evaluation of the bounty, which concluded that:

- evidence concerning the greenhouse gas and pollution impacts of fuel ethanol is ambiguous, and the appropriateness of encouraging its production and use, as implemented until now through the Ethanol Bounty Scheme, is questionable;
- current production and use of fuel ethanol is not cost effective in reducing emissions of greenhouse gas and environmental pollutants; and
- the Ethanol Bounty Scheme has not as yet met the objective of the Act²⁸ and is unlikely to significantly achieve this if continued in the future.

25 Commonwealth, *Speeches*, House of Representatives, V. Garland, 28 February 1980 and P. Keating, 19 March 1980.

26 The Macquarie dictionary defines a bounty as 'an amount paid by a government to a person or company in the private sector to encourage them to produce goods that they would otherwise not produce'.

27 Commonwealth, *Second reading speech for the Bounty (Fuel Ethanol) Bill 1994*, House of Representatives, 8 June 1994, J. Lindsay, Parliamentary Secretary to the Minister for Industry, Science and Technology.

28 ANAO comment: the objective, as stated in the *Bounty (Fuel Ethanol) Act 1994*, was 'to provide for the payment of bounty on the production in Australia of certain fuel ethanol to assist the development of a competitive, robust and ecologically sustainable fuel ethanol industry'.

1.8 The evaluation recommended:

In light of the conclusions of the evaluation, the Ethanol Bounty Scheme, in its current form, will not achieve its objective and should be discontinued at the current time.

1.9 The bounty scheme was terminated in August 1996.²⁹

Overview of the Ethanol Production Grants Program (EPGP)

1.10 On 12 September 2002, the then Prime Minister (the Hon. John Howard MP) announced that as part of the Government's strategy to encourage the use of biofuels in transport, the Government would abolish the previous excise exemption and impose an excise to apply at the same rate as for petrol (38.143 cents per litre). In parallel, the Government also introduced a 'production subsidy' at the same rate to be paid to producers of ethanol in Australia (but not to importers of ethanol). For existing Australian ethanol producers at the time, the effect of this decision was that while they would be required to pay excise to the Australian Taxation Office (ATO), they would be reimbursed in full by the EPGP payment. The Prime Minister's announcement stated that the subsidy would be provided for 12 months 'while longer term arrangements are considered by the government regarding the future of the emerging renewable energy industry'.

1.11 When the EPGP was established, program documentation did not include explicit objectives or outcomes, but referred to the terms of the Prime Minister's 12 September 2002 media release. A specific program objective and outcomes were introduced in July 2012 in the following terms:

Program objective

The objective of the Program is to support production and deployment of ethanol as a sustainable transport fuel in Australia.

The Program will provide fuel excise reimbursement of 38.143 cents per litre for ethanol produced and supplied for transport use in Australia from locally derived feedstocks.

²⁹ Senator W. Parer, (Minister for Resources and Energy), 'Ethanol Bounty Scheme Ended', media release, Parliament House, Canberra, 21 August 1996.

Program outcome

The intended outcome of the Program is to:

- (a) Encourage the use of environmentally sustainable fuel ethanol as an alternative transport fuel in Australia;
- (b) Increase the capacity of the ethanol industry to supply the transport fuel market; and
- (c) Improve the long term viability of the ethanol industry in Australia.

1.12 In order to be eligible for grants under the EPGP, applicants must:

- be an Australian entity incorporated under the *Corporations Act 2001*;
- produce and supply 'eligible ethanol'³⁰; and
- not have been named as an entity that has not complied with the *Equal Opportunity for Women in the Workplace Act 1999*.³¹

1.13 Once assessed as eligible, recipients are required to enter into a funding agreement with the administering department.³² Since its introduction, the EPGP has been administered by four departments³³; most recently the Department of Industry and Science (Industry).

1.14 Ethanol producers make payments of excise to the Australian Taxation Office (ATO) on a weekly basis and receive a receipt in the form of an Excise Return Form. They then present this receipt, together with evidence of payment (such as a bank statement) and a claim form to Industry for reimbursement of the same amount—usually on a weekly basis.

30 'Eligible ethanol' is defined in the EPGP's administrative guidelines as ethanol produced in Australia from biomass feedstock or urban waste on which excise has been paid to the Australian Taxation Office and does not include any ethanol that has been imported into Australia.

31 The Act imposes certain obligations on employers in order to improve gender equality outcomes within their workplaces. Employers which fail to meet their obligations may be named in Parliament and, consistent with the Australian Government's Procurement Rules, will not be permitted to enter into contracts with the Australian Government.

32 The funding agreements cover claiming and payment processes, grant acquittal and reporting, record-keeping, compliance arrangements, inspection and audit, and variation or termination of the agreement.

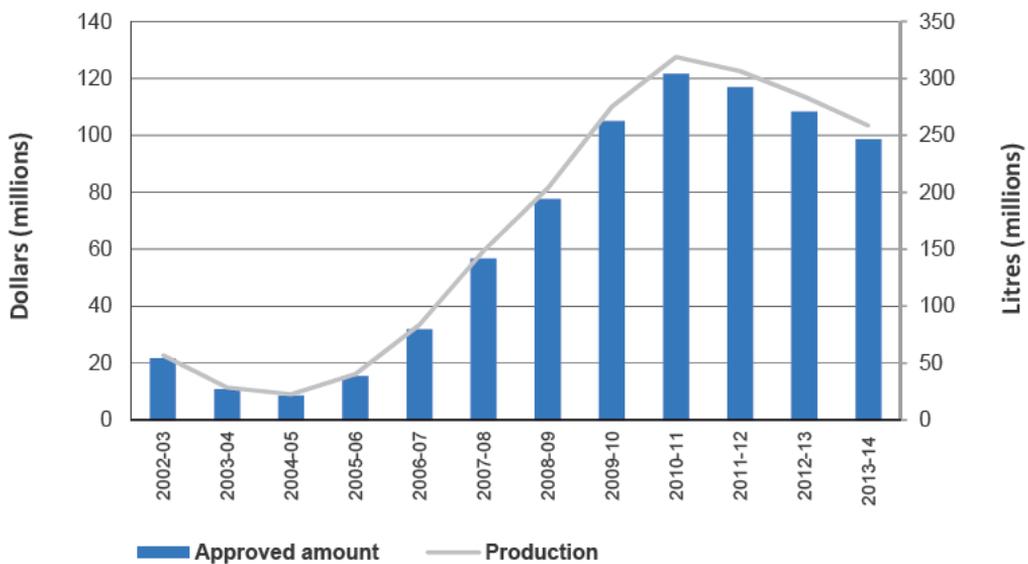
33 See paragraph 1.30.

Progress to date

1.15 Since its introduction in 2002, the EPGP has been extended three times: in 2003, 2004 and 2011. Total expenditure on the program between 2002–03 and 2014–15 is expected to be some \$895 million, comprising \$773.1 million in actual payments between 2002–03 and 2013–14, and \$122.1 million in estimated expenditure in 2014–15.

1.16 Figure 1.1 shows the total EPGP payments and production levels from its inception in September 2002 to the end of 2013–14.

Figure 1.1: Ethanol Production Grants Program: grant payments and production, 2002–03 to 2013–14



Source: ANAO analysis from Industry data.

1.17 When the EPGP commenced in 2002, two companies were assessed as eligible for EPGP grants. Over the life of the scheme, five companies have received assistance.

1.18 Table 1.1 shows EPGP grant payments to each company for the period 2002–03 to 2013–14.

Table 1.1: EPGP grant recipients and amounts, 2002–03 to 2013–14

Year (and number of recipients)	Dalby Biorefinery Pty Ltd (Qld)	Honan Holdings Pty Ltd (NSW) ¹	Schumer Pty Ltd (Qld)	Wilmar Bioethanol Pty Ltd (Vic) ²	Tarac Pty Ltd (SA)	Total
2002–03 (2)	0	20 857 998	0	824 942	0	21 682 940
2003–04 (3)	0	10 486 262	97 138	299 656	0	10 883 056
2004–05 (3)	0	7 671 436	414 733	559 818	0	8 645 987
2005–06 (3)	0	11 387 565	71 163	3 922 281	0	15 381 009
2006–07 (4)	0	21 637 968	718	10 044 841	193 856	31 877 383
2007–08 (4)	0	43 937 217	2 513	12 635 228	111 110	56 686 068
2008–09 (5)	6 478 916	57 012 826	1 146	14 028 932	94 006	77 615 826
2009–10 (3)	23 382 360	62 190 636	0	19 369 757	0	104 942 753
2010–11 (3)	25 093 998	83 417 832	0	13 087 898	0	121 599 728
2011–12 (3)	23 043 155	78 285 150	0	15 511 559	0	116 839 864
2012–13 (3)	23 468 482	74 613 764	0	10 221 481	0	108 303 727
2013–14 (3)	15 932 612	71 880 659	0	10 789 007	0	98 602 278
Total	117 399 523	543 379 313	587 411	111 295 400	398 972	773 060 619

Source: Industry.

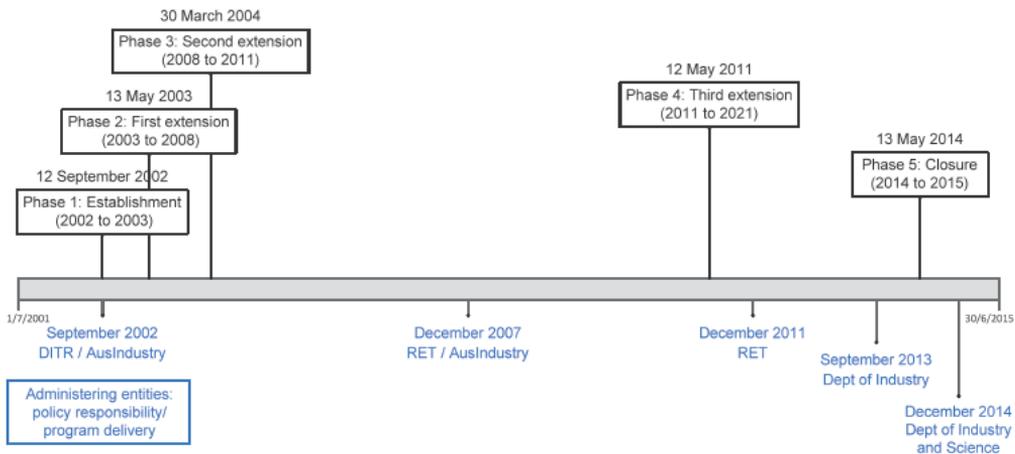
Notes 1. Honan Holdings Pty Ltd is part of the Manildra Group of companies and is sometimes referred to by that name.

2. Also known as Sucrogen and CSR.

1.19 In the 2014–15 Budget, the current Government announced that the EPGP would close effective from 30 June 2015. At that time, the rate of excise will be reduced to zero (from 1 July 2015) and then increased annually in five even stages (by 2.5 cents per litre) for five years until it reaches a ‘final rate’ of 12.5 cents per litre from 1 July 2020.³⁴

1.20 Figure 1.2 shows a timeline of the EPGP, key decision points for each phase and the administering departments over time.

Figure 1.2: EPGP key decision points and administering departments



Source: ANAO.

Other Australian Government ethanol support initiatives

Biofuels Capital Grants Program (BCGP)

1.21 On 25 July 2003, the then Acting Minister for Industry, Tourism and Resources announced the Biofuels Capital Grants Scheme (BCGP). Under the BCGP, eligible biofuel producers would receive a subsidy of 16 cents per litre

³⁴ This is the same discounted excise rate that was announced by the then (Howard) government on 16 December 2003. Ethanol has approximately 66.7 per cent of the energy content of normal unleaded petrol. Since late 2003, the government's policy is that excise on fuel is levied at a rate equivalent to its energy content. Consequently, where the excise on petrol is 38.143 cents per litre, the energy content equivalent rate for ethanol is about 25 cents per litre. In 2003, the government decided to give ethanol a 'discount' of 50 per cent on the full energy content rate, or 12.5 cents per litre 'having regard to a range of industry, regional and other factors'. Thus, even after the 'final rate' is reached in 2020, ethanol will still enjoy an effective subsidy of 12.5 cents per litre.

for projects producing a minimum of five million litres of biofuel³⁵, to a maximum of \$10 million per project.

Ethanol Distribution Program (EDP)

1.22 On 14 August 2006, the then Prime Minister (The Hon. John Howard MP) announced funding of \$17.2 million over three years to assist petrol retailers with the cost of installing new pumps or converting existing ones to encourage the sale of E10 fuel. Up to \$10 000 would be paid for direct costs and up to a further \$10 000 would be paid, after conversion, if an ethanol sales target was achieved. In October 2008, the then Prime Minister (The Hon. Kevin Rudd MP) approved an additional \$6 million for the program, bringing the total funding available under the EDP to \$23.2 million.

The Australian Government's grants administration framework

1.23 Australian Government grant programs involve the provision of financial assistance by the Commonwealth to third parties, and are subject to applicable resource management legislation. Until 30 June 2014, the *Financial Management and Accountability Act 1997* (FMA Act) established the overarching framework for the proper use of public money.³⁶

1.24 In support of FMA Act requirements, in July 2009, the Australian Government introduced a policy framework for grants administration.³⁷ The new framework had a particular focus on the establishment of transparent and accountable decision-making processes for the awarding of grants and included new specific requirements set out in the *Commonwealth Grant Guidelines* (CGGs) 2009.³⁸ Officials performing grants administration must act in accordance with the CGGs.

35 In November 2014, Industry advised that project proponents were also required to demonstrate, over a three year period from commissioning, that the plant would produce an average annual volume equivalent to the quantum of the grant when calculated at a rate of 16 cents per litre.

36 In June 2013, the Parliament passed new legislation, the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), to replace the FMA Act and the *Commonwealth Authorities and Companies Act 1997* (the CAC Act). The PGPA Act took effect on 1 July 2014.

37 The new framework followed a number of earlier reforms, including interim measures announced in December 2007 and revised Finance Minister's Instructions in January 2009.

38 The CGGs were updated in June 2013 and then reissued in July 2014 as the *Commonwealth Grants Rules and Guidelines* to coincide with, and reflect the terms of, the PGPA Act.

1.25 The EPGP is subject to the grants policy framework. The EPGP program guidelines provide that the department must administer the program in accordance with the Australian Government's financial management and accountability framework, including the Commonwealth Grant Guidelines.³⁹

Audit objective, criteria, methodology and scope

1.26 The objective of the audit was to examine the effectiveness of Industry's administration of the EPGP including relevant advice on policy development.

Audit criteria and scope

1.27 To form a conclusion against the objective, the following high level audit criteria were used:

- the grant application process was accessible and attracted high quality applications;
- the assessment process adopted was consistent, transparent and cost effective;
- advice to the delegate was complete and robust and funding decisions were sound;
- funding distribution is consistent with the program's objectives and appropriate arrangements are in place to manage successful projects;
- appropriate monitoring and reporting arrangements are in place; and
- relevant government entities provided sound advice to assist with policy development and government decision making.

1.28 The ANAO examined program administration since 2007–08, given the difficulty in identifying and locating detailed records relating to the program's early administration. However, the ANAO's examination of the policy development process and decisions by government covers the period from the EPGP's establishment in 2002. The ANAO does not have a role in commenting on the merits of government policy.

39 EPGP Program Administrative Guidelines, paragraph 8.2, 12 June 2014; EPGP Program Administrative Guidelines, paragraph 8.2, July 2012. The November 2011 program guidelines also noted that the program would be administered 'in accordance with Commonwealth grants requirements', p. 5.

1.29 This audit does not involve an assessment of the administration of other (non-EPGP) government initiatives to support the Australian ethanol industry, except to the extent necessary for an understanding of the history of the EPGP.

1.30 There have been a range of entities involved in both the administration and policy aspects of the EPGP. When the EPGP was established in 2002, the then Prime Minister announced that it would be administered by the then Department of Industry, Tourism and Resources (DITR), with the actual delivery of the program carried out by AusIndustry (a division of DITR). Following the November 2007 election and consequent Machinery of Government changes, the newly-created Department of Resources, Energy and Tourism (RET) assumed policy responsibility for the EPGP, with AusIndustry continuing to perform the program delivery role. From December 2011, RET assumed both policy and program delivery responsibilities for the EPGP. After the September 2013 election, RET was abolished and its resources and energy functions, including the EPGP, were transferred to the Department of Industry. In December 2014, the Department was renamed the Department of Industry and Science. For simplicity, the title 'Industry' will be used throughout this report to refer to the present administering department as well as its predecessors, unless otherwise specified.

Audit methodology

1.31 The ANAO:

- reviewed documents of the departments of Industry and Science, the Prime Minister and Cabinet, the Treasury and Finance, including policy documents, ministerial correspondence, reports, guidelines and operational documents;
- examined relevant Cabinet submissions, memoranda and decisions;
- examined the grants administration process; and
- interviewed departmental staff.

1.32 The ANAO also invited EPGP recipients (as shown in Table 1.1) to provide representations about their experience as grant recipients and, in particular, Industry's administration of the program. However, no submissions were received.

1.33 The audit was conducted in accordance with ANAO auditing standards at a cost to the ANAO of approximately \$472 000.

Report structure

1.34 The structure of the report is outlined in Table 1.2.

Table 1.2: Report structure

Chapter	Chapter Overview
2. Program Objectives	Examines advice provided by several Australian Government entities to government on the Ethanol Production Grants Program (EPGP) and related matters, from its establishment phase in 2002 to its planned closure effective from June 2015, as well as progress towards achievement of the program objectives.
3. Program Administration	Examines the administration of the Ethanol Production Grants Program with a focus on activity since 2007–08.

Source: ANAO.

2. Program Objectives

This chapter examines advice provided by several Australian Government entities to government on the Ethanol Production Grants Program (EPGP) and related matters, from its establishment phase in 2002 to its planned closure effective from June 2015, as well as progress towards achievement of the program objectives.

Introduction

2.1 Australian Government entities have a key role in providing advice to government on matters within their areas of responsibility. For the Ethanol Production Grants Program (EPGP), primary responsibility for energy policy and industry development rests with the (now) Department of Industry and Science (Industry).⁴⁰ However, the program intersected with broader policy concerns—including taxation (in particular fuel excise), regional development, renewable energy and other environmental issues—and the central agencies were also closely involved in advising successive governments on the EPGP’s development and achievement of program objectives since 2002.

2.2 As noted in Chapter 1, the EPGP had a number of phases:

- Phase 1—Establishment (2002-2003);
- Phase 2—First Extension (2003-2008);
- Phase 3—Second Extension (2008-June 2011);
- Phase 4—Third Extension (July 2011-November 2021); and
- Phase 5—Closure (2014 to June 2015).

2.3 In this context, the ANAO examined advice to governments provided by Industry and the central agencies at key decision points in the EPGP’s life, including progress towards achievement of the program objectives.

2.4 Governments may also draw on advice from other parties, such as researchers, experts and stakeholders. In this audit, the ANAO has referenced a number of external expert reports relevant to the EPGP.

40 As discussed in Chapter 1, administrative responsibility for the EPGP varied over its program life as follows: the Department of Industry, Tourism and Resources (2002-2007); the Department of Resources, Energy and Tourism (2007-2013); the Department of Industry (2013-2014); and the Department of Industry and Science from December 2014.

Phase 1 – Establishment (2002–2003)

2.5 Ahead of the November 2001 election, the (Howard) Government released an action plan entitled *Biofuels for cleaner transport*.⁴¹ The plan stated that, if re-elected, the Coalition would establish an objective that biofuels⁴² contribute at least 350 million litres to the total fuel supply by 2010, and would provide a capital subsidy of 16 cents per litre for new or expanded domestic ethanol production. The plan also stated that biofuels such as ethanol and biodiesel have a number of advantages over fossil fuel:

- multiple regional benefits, including increased employment, more efficient use of agricultural and forestry residues and an additional income stream to provide a buffer against shifting commodity prices;
- biofuels are renewable, whereas other alternative fuels (such as Compressed Natural Gas (CNG), Liquefied Natural Gas (LNG) and Liquefied Petroleum Gas (LPG) are not;
- environmental benefits such as improved air quality and reductions in greenhouse gas emissions; and
- increased domestic biofuels production and use will reduce Australia's reliance on fossil fuels.

2.6 In September 2002, the Government also considered options (and a range of associated measures) to assist the Australian sugar industry which was facing difficulties due to a range of factors including low world sugar prices, adverse seasonal conditions and plant diseases and plagues.

2.7 One option considered by the Government (and subsequently adopted as the EPGP—see paragraph 1.10) was to remove the excise exemption on ethanol, impose excise and customs duty at the same level as for petrol (38.143 cents per litre) and, in parallel, provide a production subsidy of the same amount for existing or new producers of ethanol in Australia (but not for importers of ethanol). The effect of this measure would be to provide domestic

41 Liberal and National parties, *Biofuels for cleaner transport*, 31 October 2001 <
http://parlinfo.aph.gov.au/parlInfo/download/library/partypol/1TB56/upload_binary/1TB56.pdf;fileType=application/pdf#search=%22biofuels%20for%20cleaner%20transport%22>
 [accessed 9 September 2014]

42 Biofuels (or alternative fuels) are produced by chemical conversion processes that result in the production of ethanol and biodiesel.

producers of ethanol with a 38.143 cents per litre cost advantage over importers of ethanol and other transport fuels.

2.8 In responding to this option (and other proposals) Treasury, Finance and Industry identified a range of concerns, including:

- that assistance to ethanol producers would not assist sugar producers because the (sugar) industry's difficulties were fundamentally due to low world sugar prices which would not be affected by such assistance;
- that there were already lower cost feedstocks⁴³ than sugar, such as wheat starch and sorghum;
- that ethanol was an inferior product to petrol, having only 60 per cent of the energy content of petrol, had potential operability issues in engines and had significantly higher production costs;
- that the proposed measure offered no quantifiable environmental benefits, could impose significant costs on other Australian industries and would potentially result in significant costs to the Budget; and
- experience to date both internationally and in Australia⁴⁴ suggested that ethanol as a transport fuel was not commercially viable unless supported by government assistance.

2.9 On 12 September 2002, Prime Minister Howard announced the establishment of (what became known as) the EPGP as a 'short-term production subsidy'⁴⁵—for 12 months. While the announcement did not directly reference this initiative as an assistance measure for the sugar industry, it added 'the subsidy will provide a targeted means of maintaining the use of biofuels in transport in Australia, while longer term arrangements are considered by the government regarding the future of the emerging renewable industry'. The media release also stated that the subsidy scheme (EPGP) and the excise and customs changes would take effect from midnight on Tuesday 17 September 2002.

43 A feedstock is the raw material from which ethanol can be produced.

44 See paragraphs 1.7 to 1.8 for discussion of the Ethanol Bounty Scheme.

45 John Howard, (Prime Minister), 'Government promotes renewable energy', media release, Parliament House, Canberra, 12 September 2002 http://parlinfo.aph.gov.au/parlInfo/download/media/pressrel/XCE76/upload_binary/xce761.pdf;fileType=application/pdf#search=%22ethanol%22 [accessed 8 September 2014].

2.10 Shortly after the Prime Minister’s announcement, a number of articles in the media⁴⁶ reported that at the time the subsidy was introduced, a company named Trafigura Fuels had a shipment of ethanol from Brazil on its way to Australia. There was also commentary in the media in 2002 and 2003⁴⁷ about the fact that one of the EPGP recipients—Honan Holdings Pty Ltd (part of the Manildra Group of companies and then the largest Australian producer of ethanol)—had made significant donations to the major political parties.⁴⁸

Phase 2 - First extension

2.11 In the 2003–04 Budget, the (Howard) Government decided⁴⁹ to extend the existing EPGP arrangements until 30 June 2008, and then over the following five years the EPGP would be reduced in five yearly instalments until July 2012 to ‘establish an environment where ethanol producers can invest in confidence knowing the arrangements that will apply to their industry for the next nine years’.⁵⁰ By gradually reducing the EPGP while in parallel introducing the excise in five even annual steps, the Government intended to establish a ‘transition path’ whereby over time the ethanol industry would move from a position of paying no excise (because the EPGP of 38.143 cents per litre was the same amount as the excise, thus producing an effective excise rate of 0 cents per litre) to paying excise (at a rate then yet to be determined).

2.12 During 2003, the Government considered a range of other proposals to support the ethanol industry, including mandating the use of E10⁵¹ in Commonwealth vehicles as well as in Australia’s general vehicle fuel supply

46 See for example A. Jackson, ‘A sugar sweetener for big boys’, *The Guardian*, 18 September 2002 available from <http://www.cpa.org.au/z-archive/g2002/1109sugar.html> [accessed 8 September 2014] and N Johnston, ‘Ethanol company not happy’, *ABC World Today*, 16 September 2002, available from <http://www.abc.net.au/worldtoday/stories/s677584.htm> [accessed 8 September 2014].

47 See for example A Ramsey, ‘A disgrace of the old school’, *Sydney Morning Herald*, 16 August 2003 < <http://www.smh.com.au/articles/2003/08/15/1060936053263.html>> [accessed 29 September 2014]

48 Political parties and donors are required to report donations above certain thresholds to the Australian Electoral Commission (AEC) which lists donations on its website. Prior to 1985, the threshold was \$1500. In 1985, the threshold was increased to \$10 000 and is indexed annually based on increases in the Consumer Price Index. Information available on the AEC website indicates that between 1998–99 and 2012–13, the Manildra Group of companies donated, at both state and federal levels, \$1 655 287 to the Australian Labor Party, \$968 187 to the Liberal Party and \$964 502 to the National Party. In the 2007 election, it also donated \$50 000 to an independent federal member of Parliament, Mr Tony Windsor, MP.

49 P Costello, (Treasurer), ‘Fuel Tax Reform for the Future’, media release, Parliament House, Canberra, 13 May 2003. < http://parlinfo.aph.gov.au/parlInfo/download/media/pressrel/OFC96/upload_binary/ofc963.pdf;fileType=application/pdf#search=%22ethanol%20media%20pressrel%22> [accessed 9 September 2014]

50 J Anderson (Deputy Prime Minister), Speech at Brisbane Budget Breakfast, 14 May 2003.

51 E10 is a blend of 90 per cent petrol and 10 per cent ethanol.

(as a smaller percentage of fuel content). At this time, it was suggested that while there were only two domestic ethanol producers operating, up to a further 15 ethanol and another 16 biodiesel plants or expansions might be established across Australia.

2.13 Central agencies identified a range of issues relating to the proposal to mandate use of E10 in the Commonwealth vehicle fleet, including: costs; potential for market distortion; and whether a mandated approach would provide existing suppliers with disproportionate market power.

2.14 In mid-2003, a downturn in consumer demand for ethanol in vehicle fuels stemmed from unlabelled 20 per cent blends being sold into the market, and media reports of potential for vehicle engine damage to arise from using petrol with 20 per cent or more ethanol. In this context, the Government also considered a number of short-medium term options to support the biofuels sector, including: financial support for storage of EPGP recipients' excess ethanol supplies (due to falling sales); as well as a pre-payment arrangement to offset suppliers' storage costs until consumer demand levels improved.⁵²

2.15 The debate within government at this time revolved around whether to respond to short term issues, a number of which were considered to have resulted from the commercial decisions of some producers.

2.16 In December 2003, a report entitled *Appropriateness of a 350 million litre biofuels target*⁵³ was released. The report, commissioned by the Government, considered the feasibility of its policy objective of 'biofuels contributing at least 350 million litres to Australian fuel supply by 2010'. The report concluded that:

- the biofuels industry would require substantial and ongoing assistance in order to meet a target of 350 million litres by 2010 (although ethanol produced from waste starch could be competitive with traditional fuels over the medium to longer term);
- if the 350 million litres target was met, there would be savings of approximately 268 000 tonnes of greenhouse gases (about 0.3 per cent of transport emissions), although this would come at a relatively high cost;

52 This option involved changes to the EPGP from reimbursing grant recipients *after* payment of their excise to paying the EPGP grant *before* any excise was paid.

53 CSIRO, ABARE and Bureau of Transport and Regional Economics (BTRE), *Appropriateness of a 350 million litre biofuels target*, Canberra, December 2003
http://www.bitre.gov.au/publications/2003/files/cr_001.pdf [accessed 9 September 2014].

- meeting the target would reduce GDP in 2010 by approximately \$70 million in 2010;
- the cost of each direct job created in the biofuels industry would be between \$492 000 and \$516 000; and
- the benefits of biofuels in terms of improving energy security⁵⁴ are minimal because 350 million litres of biofuels represents only 1.1 per cent of Australia's total motor vehicle fuel demand.

2.17 Overall, the report concluded that 'the costs of implementing a policy of assisting the Australian biofuels industry to meet a 350 million litre biofuels target are estimated to exceed the benefits'.

2.18 On 16 December 2003, Prime Minister Howard announced an 'overhaul of the fuel excise system' to give effect to one of the key recommendations of the Fuel Tax Inquiry⁵⁵: that excise should apply to all liquid fuels, irrespective of their derivation. Under the new arrangements, excise would be introduced for 'alternative' fuels—such as ethanol—based on the energy content of the fuels relative to petrol and diesel. In parallel, the Government also decided that it would provide a 50 per cent discount of the full energy content rate for alternative fuels. In relation to ethanol, the proposals meant that it would attract excise at a rate of 2.5 cents per litre from 1 July 2008, increasing by 2.5 cents per litre each year until it reached its 'final' discounted rate of 12.5 cents per litre on 1 July 2012.

Phase 3 - Second extension (2008-June 2011)

2.19 In a separate measure contained in the 2003-04 Budget, the (Howard) Government also announced that it would legislate to bring all previously untaxed fuels (which included ethanol and biodiesel, but also LPG, CNG and LNG) into the excise net in order to 'promote long-term sustainability and move to a neutral tax treatment between competing fuels'.⁵⁶ It proposed to do this by introducing specific legislation, known as the *Energy Grants (Cleaner*

54 The 2011 *National Energy Security Assessment* published by the Department of Resources, Energy and Tourism defines energy security as the adequate, reliable and competitive supply of energy to support the functioning of the economy and social development.

55 The Fuel Tax Inquiry had been commissioned by the Prime Minister in March 2001 to 'examine the total existing structure of Commonwealth and state taxation of petroleum products and petroleum substitute products' (which includes ethanol).

56 *Budget Statement 1*, 2003-04 Budget, 13 May 2003.

Fuels) Scheme Act 2004 (the EG(CF) Act). Under this arrangement, the EPGP would cease on 30 June 2008 (as described in paragraph 2.11) and both ethanol producers and importers would be entitled to EG(CF) grants, which were to be administered by the Australian Taxation Office from 1 July 2008.

2.20 In March 2004, in negotiations for the passage of the EG(CF) Act, the Government agreed to an amendment proposed by the Australian Democrats⁵⁷ to defer the commencement date for the phase-in of excise from 1 July 2008 until 1 July 2011, effectively extending the subsidy for ethanol by three years. As a result of this decision, the EPGP would continue until 30 June 2011, when the EG(CF) grants would commence.

2.21 Ahead of the agreement with the Democrats, Prime Minister Howard received advice from his department in March 2004 that ‘the delay in extending excise to alternative fuels has a cost to revenue of \$100m in 2008–09 rising to \$290m in 2010–11 and 2011–12 and then declining to zero by 2015–16’.

2.22 In November 2007, the Rudd Government was elected. In February 2008, the new Prime Minister requested that the Minister for Resources and Energy and the Minister for Agriculture, Fisheries and Forestry undertake an internal review of existing biofuels policies. This internal review found no single compelling policy rationale for providing Commonwealth assistance to the biofuels industry and the benefits of regional economic development, enhancing energy security and improving public health outcomes are small and may be outweighed by the costs.⁵⁸

2.23 In February 2009, Ministers considered the review report and recommendations by the two Ministers, which included closing the EPGP to new entrants, capping grant payments to new entrants and phasing out the EPGP. No decision was made by Ministers in response to this report.

Variation to second extension

2.24 In the 2010–11 Budget context, the Government considered a range of savings options to respond to increasing program costs. EPGP expenditure had grown from \$77.6 million in 2008–09 to \$104.9 million in 2009–10, and there was

57 L Allison, (Australian Democrats energy spokesman), ‘Democrats win excise exemption on biofuels’, media release, Parliament House, Canberra, 30 March 2004 <<http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;adv=yes;orderBy=customrank;page=0;query=Content%3Aethanol%20Date%3A30%2F03%2F2004;rec=7;resCount=Default>> [accessed 10 September 2014]

58 The Department of Resources, Energy and Tourism and the Department of Agriculture, Fisheries and Forestry, *Biofuels Internal Government Review*, July 2008. Not publicly released.

no discretion on payment levels under the existing demand-driven program arrangements. The Government decided to change the rate of excise on ethanol to 25 cents per litre from 1 July 2011, phasing down to 12.5 cents per litre from 1 July 2015. Over the same period, the rate of the ethanol subsidy would be reduced from a starting point of 22.5 cents per litre to zero, such that from 1 July 2015, ethanol producers would pay 12.5 cents per litre in excise, but receive no subsidy.

2.25 In May 2010, in the 2010–11 Budget context, the Assistant Treasurer stated:

The sudden loss in the relative tax advantage of domestic ethanol compared to imported ethanol that would have occurred under the policy announced by the previous government will be addressed. Entitlement to the Energy Grants (Cleaner Fuels) Scheme will be removed and direct subsidies will be provided to domestic producers and phased down over the transition period.

Phase 4 - Third extension (July 2011- June 2021)

2.26 Following the August 2010 federal election, and during negotiations with Mr Tony Windsor MP, the (then) independent member for New England, the (Gillard) Government agreed⁵⁹ to continue the EPGP and the transition to the final excise rate until 30 June 2021.

2.27 The financial impacts of the agreement were considered by Ministers in October 2010 as part of the 2010 Mid-Year Economic and Fiscal Outlook and announced in the 2011–12 Budget.

2.28 On 12 May 2011, the day after the 2011–12 Budget, in the Second Reading speech for the *Taxation of Alternative Fuels Legislation Amendment Bill 2011*, the Assistant Treasurer said:

This bill also includes a commitment that renewable fuels (ethanol, methanol and biodiesel) do not pay effective excise. This commitment reflects discussions with our crossbench colleagues and industry on these longstanding reforms... The taxation and grant arrangements that currently apply to ethanol, namely application of fuel taxation to both imported and domestically produced ethanol with a grant for domestically produced ethanol, will be maintained for a period of ten years before a review is undertaken.

59 Prime Minister Gillard's 7 September 2010 letter to Mr Windsor can be viewed at <http://resources.news.com.au/files/2010/09/07/1225915/538418-gillard-letter-to-windsor.pdf> [accessed 15 September 2014]. Mr Windsor was one of several independent MPs who supported the Gillard minority government from 2010 to 2013.

Phase 5 – Closure (2014-June 2015)

2.29 In the 2014–15 Budget, the current Government announced that the EPGP would be abolished with effect from 30 June 2015, with a transition path to payment of fuel excise⁶⁰ commencing at 0 cents per litre from 1 July 2015 and increasing by 2.5 cents per litre per year.

2.30 In their consideration of options presented by Industry for closure of the EPGP, Ministers were alerted to the February 2014 report on the program by the Bureau of Resources and Energy Economics (BREE) (discussed below at paragraphs 2.35 to 2.36.). The BREE report indicated that the EPGP had not been successful in achieving its intended outcomes, in particular creating a viable ethanol industry in Australia.

2.31 Actual expenditure on the EPGP between 2002 and 2013–14 was \$773.1 million, with estimated expenditure for 2014–15 of \$122.1 million, totalling some \$895 million over the life of the program.

Progress towards achieving EPGP program objectives

2.32 Prior to 2012, the EPGP program documentation made reference to Prime Minister Howard’s 12 September 2002 media release (see paragraph 2.9) that the EPGP was ‘part of the Government’s strategy to encourage the use of biofuels in transport’. In 2012, the EPGP Program Administration Guidelines were revised to include more explicit statements on its objective and outcomes, as follows:

Program objective

The objective of the Program is to support production and deployment of ethanol as a sustainable transport fuel in Australia.

The Program will provide fuel excise reimbursement of 38.143 cents per litre for ethanol produced and supplied for transport use in Australia from locally derived feedstocks.

Program outcome

The intended outcome of the Program is to:

- (a) Encourage the use of environmentally sustainable fuel ethanol as an alternative transport fuel in Australia;

60 At the 50 per cent discount originally agreed by the then government in December 2003.

(b) Increase the capacity of the ethanol industry to supply the transport fuel market; and

(c) Improve the long term viability of the ethanol industry in Australia.

2.33 While ultimately a matter for government decision, during the program's 12 years of operation, there was a consistent flow of advice from departments and external review opinion⁶¹, highlighting shortcomings in the overall policy approach.

2.34 In its report⁶² to the Government in February 2014, the National Commission of Audit recommended that the government abolish the EPGP, on the basis that:

'The grant subsidises the production of fuel ethanol in Australia. It provides a benefit to a small number of Australian producers, skewing commercial decision making towards ethanol production, and distorting Australian markets for fuel and feedstock products. As the subsidy is not available for imported ethanol, it also provides protection from foreign competition and increases the consumer price of fuel ethanol blends. The environmental benefits are contestable, with the Productivity Commission (2011)⁶³ finding the grants resulted in only marginal carbon dioxide abatement at a cost of over \$500 per tonne of abatement.

2.35 Also, in February 2014, the Bureau of Resources and Energy Economics (BREE)⁶⁴, within Industry, released a report entitled *An assessment of key costs and benefits associated with the Ethanol Production Grants program*. The report was intended to provide a concise high level assessment of the impacts of the Australian Government's Ethanol Production Grants (EPG) Program. In doing so, it examined the key costs and benefits associated with the program's operation and the resultant Australian ethanol production. The report concluded:

61 CSIRO, ABARE and Bureau of Transport and Regional Economics (BTRE), *Appropriateness of a 350 million litre biofuels target*, Canberra, December 2003; and Department of Resources, Energy and Tourism and Department of Agriculture, Fisheries and Forestry, *Biofuels Internal Government Review*, July 2008. [Not publicly released].

62 National Commission of Audit. *Towards Responsible Government: The Report of the National Commission of Audit-Phase 1*. Canberra. 2014. Appendix Volume 2, p. 16.

63 ANAO comment: see Productivity Commission, *Carbon Emission Policies in Key Economies*, p. 124, Canberra, May 2011 < http://www.pc.gov.au/data/assets/pdf_file/0003/109830/carbon-prices.pdf > [accessed 1 October 2014].

64 The Bureau of Resources and Energy Economics (BREE) is an economics research unit within Industry.

- the annual cost of the program to the taxpayer is significant. Two of the key economic and environmental benefits from ethanol production, notably regional employment⁶⁵ and greenhouse gas abatement, are estimated to be relatively modest but come at a high to very high cost;
- the health benefits that accrue from reduced air pollution are also relatively modest and declining. The small and concentrated nature of the industry also provides no real benefit in terms of Australia's liquid fuel security and in fact may be slightly negative;
- there would appear to be no net benefit for agricultural producers as feedstock used is either waste/residue product or would have been sold into other markets;
- while the EPG program clearly supports an additional lower priced fuel product for consumers, the benefits to motorists are also less than they should be⁶⁶;
- there is no evidence to suggest that provision of support for the Australian ethanol industry through the EPG program provides downward pressure on retail petrol prices or materially increases retail market competition in a sustainable way; and
- that an expanded Australian ethanol industry based on market priced feedstock was considered unlikely to be commercially viable in the absence of the EPG rebate.⁶⁷

2.36 The BREE assessment report comprises a useful economic analysis and synthesis of internal program data and other evidence and research, including from external sources, on the EPGP's achievements against its stated objective and intended outcomes. In essence, the BREE came to much the same

65 ANAO comment: The report estimated that at the full cost of the EPGP in 2012–13, the cost per direct job in the ethanol production industry was between \$545 000 and \$680 625.

66 ANAO comment: For an E10 blend, the EPGP subsidy of 38.143 cents per litre means that a litre of E10 fuel should cost 3.8 cents per litre less than a litre of regular unleaded petrol. However, the BREE report noted that the Australian Competition and Consumer Commission had estimated in 2012–13 that the average E10 price discount at the bowser was approximately two cents per litre.

67 The BREE noted that since the inception of the EPGP, ethanol production for transport fuel in Australia had grown from 56.8 million litres to a peak of 319 million litres in 2010–11. Since then, production and consumption had fallen to 284 million litres in 2012–13. The decline in market sales of E10 over the last two years, despite its discounted bowser price, suggested that a sustainable (i.e. non subsidised) market for ethanol blended fuels would be smaller than the current EPGP supported market, particularly as the majority of motorists appeared to display a preference for unblended petrol for performance or other reasons. BREE, op. cit. (pp. 3–4).

conclusion in 2014 as the 1996 program evaluation of the Ethanol Bounty⁶⁸ on which the EPGP was largely modelled. The 1996 evaluation had observed that the Ethanol Bounty Scheme ‘in its current form, will not achieve its objective and should be discontinued at the current time’.⁶⁹

Conclusion

2.37 The Australian Government announced the closure of the Ethanol Production Grants Program (EPGP) in the context of the 2014-15 Budget. While originally established as a one year assistance measure, the EPGP operated for 12 years at a cost of some \$895 million, with successive governments extending the program on three occasions.

2.38 The EPGP is a grants program currently administered by the Department of Industry and Science (Industry). The 2012 program objective was to support the production and deployment of ethanol produced from locally derived feedstocks as a sustainable transport fuel in Australia. The intended program outcomes were to: improve the long term viability of the ethanol industry in Australia; increase the capacity of the ethanol industry to supply the transport fuel market; and encourage the use of environmentally sustainable fuel ethanol as an alternative transport fuel in Australia.

2.39 At the outset of the program and at key phases in the program’s life, the administering department and central co-ordinating agencies consistently highlighted shortcomings in the overall policy approach and drew attention to the EPGP’s limited success in achieving its program objectives. In their advice, entities drew on international experience and available Australian evidence, including experience with the earlier Ethanol Bounty Scheme on which the EPGP was largely modelled. A 1996 program evaluation of the Ethanol Bounty Scheme had observed that it would not achieve its objective and should be discontinued.

2.40 At a number of key program phases, external and internal reviews were commissioned to inform government decisions on the EPGP. In particular, a 2014 report by Industry’s Bureau of Resources and Energy Economics (BREE) provided a concise high level assessment of the program’s

68 Discussed in paragraphs 1.7 to 1.9.

69 Portfolio Evaluation for the Ethanol Bounty Scheme. August 1996. Canberra. p. 10-2.

costs and benefits⁷⁰, leading soon after to the Australian Government's decision to close the program.⁷¹

2.41 In 2013-14, only three ethanol producers were in receipt of EPGP support. When the program was introduced in 2002-03, it was suggested that up to a further 15 domestic ethanol plants might be established across Australia. While the program has directly supported a small number of grant recipients⁷², in some cases for an extended period⁷³, the program has had limited success in achieving the program outcome of improving the long-term viability of Australia's domestic ethanol industry. In 2014, the BREE considered that an expanded Australian ethanol industry based on market priced feedstock was considered unlikely to be commercially viable in the absence of the EPG rebate. The BREE further concluded that realisation of expected indirect benefits—including regional development, environmental and health benefits—has been modest at best, and/or at a much higher cost than could be achieved using more direct forms of government support.

70 BREE, *An assessment of key costs and benefits associated with the Ethanol Production Grants program*, February 2014.

71 The 2014 National Commission of Audit also recommended that the government end the program.

72 In all, five producers have received assistance at various times under the program.

73 Two recipients have participated for the duration of the program.

3. Program Administration

This chapter examines the administration of the Ethanol Production Grants Program with a focus on activity since 2007–08.

Introduction

3.1 The EPGP is a demand-driven grants program whereby eligible producers who have a funding agreement with the Commonwealth are reimbursed for excise paid to the ATO, usually on a weekly basis. To be eligible for grants under the EPGP, applicants must:

- be an Australian entity incorporated under the *Corporations Act 2001*;
- produce and supply ‘eligible ethanol’⁷⁴; and
- not have been named as an entity that has not complied with the *Equal Opportunity for Women in the Workplace Act 1999*.⁷⁵

3.2 There are no additional, merit-based, criteria under the program framework agreed by the Government in 2002. Applications for funding can be submitted to the department for assessment at any time; therefore, the department does not manage formal funding ‘rounds’ as such, but will assess applications upon receipt. Under all EPGP program guidelines, approved by the relevant Minister at certain times (see paragraph 3.10), authority for making decisions on program eligibility and funding has been delegated to departmental officers.

3.3 The EPGP, as an Australian Government grant program, was subject to the financial management framework established by the *Financial Management and Accountability Act 1997* (the FMA Act) and its associated Regulations from 2002 to June 2014.⁷⁶ Since 2009, entities responsible for grants administration

74 ‘Eligible ethanol’ is defined in the EPGP’s administrative guidelines as ethanol produced in Australia from biomass feedstock or urban waste on which excise has been paid to the Australian Taxation Office and does not include any ethanol that has been imported into Australia.

75 This Act imposes certain obligations on employers in order to improve gender equality outcomes within their workplaces. Employers which fail to meet their obligations may be named in Parliament and, consistent with the Australian Government’s Procurement Rules, will not be permitted to enter into contracts with the Australian Government.

76 In June 2013, the Parliament passed new legislation, the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), to replace the FMA Act and the *Commonwealth Authorities and Companies Act 1997* (the CAC Act). The PGPA Act took effect on 1 July 2014.

have also had to comply with the *Commonwealth Grant Guidelines* (CGGs).⁷⁷ The EPGP program guidelines provide that the department must administer the program in accordance with the Australian Government's financial management and accountability framework, including the Commonwealth Grant Guidelines.⁷⁸

3.4 In assessing Industry's administration of the EPGP since 2007-08⁷⁹, the ANAO has examined: the EPGP's compliance with the relevant financial framework requirements and CGGs; as well as the following aspects of program administration:

- program planning and design;
- program guidelines and procedures;
- application and assessment;
- funding arrangements;
- claims for payment and monitoring compliance; and
- program reporting.

Program planning and design

3.5 The ANAO's 2002 Better Practice Guide (BPG) on grants administration observed that 'effective planning is the cornerstone of an economic, efficient and effective grant program'.⁸⁰ The BPG also highlighted the importance of well-designed program guidelines⁸¹ and reporting arrangements.⁸²

3.6 On 12 September 2002, when Prime Minister Howard announced the establishment of the EPGP as a 'short-term production subsidy', he also stated that this initiative would commence from 17 September 2002, less than one

77 The CGGs were revised and reissued in June 2013 and again in July 2014, to reflect the introduction of the PGPA Act.

78 EPGP Program Administrative Guidelines, paragraph 8.2, 12 June 2014; EPGP Program Administrative Guidelines, paragraph 8.2, July 2012. The November 2011 program guidelines also noted that the program would be administered 'in accordance with Commonwealth grants requirements', p. 5.

79 Reference is made to administrative issues prior to 2007–2008 where necessary to provide context.

80 ANAO Better Practice Guide—*Administration of Grants*, Canberra, May 2002, p. 5. The BPG was revised in 2009 and 2013 to reflect changes in the Australian Government's financial management framework, including the release of the CGGs in 2009.

81 *ibid*, paragraph 2.105.

82 *ibid*, paragraph 5.21.

week from the date of his announcement. The key program design parameters—a demand-driven grant program whereby eligible applicants would be fully reimbursed for fuel excise paid on ‘eligible ethanol’—were also settled by senior ministers in September 2002.

3.7 In this context, the administering department⁸³ had very limited time to design and plan for the implementation of the program.⁸⁴ Further, the EPGP was originally announced as an interim measure, and the initial administrative arrangements were not fully developed; chiefly comprising a funding agreement setting out the terms and conditions of program funding, but not a set of formal program guidelines and reporting arrangements.

3.8 In the 2003-04 Budget, the Government decided to extend the EPGP until June 2008. The department then took the opportunity to formalise aspects of the program, such as the development of formal program guidelines and reporting requirements by grant recipients; placing its grants administration on a sounder footing.

Program guidelines and procedures

Guidelines

3.9 The guidelines established for a granting activity play a central role in the conduct of effective, efficient and accountable grants administration. Grant guidelines should be fit for purpose (having regard to the policy objective of the granting activity) and support the decision-maker’s capacity to demonstrate that funding decisions have been taken in accordance with the relevant statutory and policy requirements.⁸⁵ Successive ANAO Better Practice Guides on grants administration and the 2009 CCGs⁸⁶ also highlighted the long-established expectation that grant programs should operate under clearly defined and

83 At that time, the then Department of Industry, Tourism and Resources.

84 As outlined in Chapter 1, prior to the 2001 election, the then Government had released an Action Plan with an objective of setting a target for the production of 350 million litres of biofuels by 2010. This target, together with options to achieve it, had been under discussion for some time since 2001, but the decision to introduce the EPGP in its announced form was not made until 10 September 2002.

85 ANAO Better Practice Guide—*Implementing Better Practice Grants Administration*. Canberra. December 2013. pp. 40, 42. Successive ANAO Guides have highlighted the importance of program guidelines in effective grants administration.

86 2009 CCGs, p. 28.

documented operational objectives. The operational objectives should be clearly linked to the outcomes set by government for the grant-giving organisation.⁸⁷

3.10 The first edition of the EPGP program guidelines was approved by the then Minister for Industry, Tourism and Resources on 23 November 2004. The guidelines were subsequently revised and reissued a further six times to reflect successive governments' various decisions, particularly extensions, to the EPGP over time,⁸⁸ and the evolving framework for grants administration.⁸⁹

3.11 While successive editions of the EPGP guidelines incorporated background references to Prime Minister Howard's 12 September 2002 statement (see paragraph 2.9) that the EPGP was 'part of the Government's strategy to encourage the use of biofuels in transport', it was not until 2012 that the EPGP Program Administration Guidelines included more explicit statements on its objective and outcomes (see paragraph 2.32). It would have been preferable that program objectives and outcome statements were more formally and explicitly included in the guidelines from the start of the program.

3.12 The 2009 and 2013 CCGs required entities to:

- develop and make publicly available grant guidelines for all new granting activities (including grant programs)⁹⁰;
- ensure that grant guidelines and related operational guidance are consistent with the CCGs⁹¹; and
- promote 'open, transparent and equitable access to grants' by, for example, including relevant program documentation (such as the guidelines) on their websites.⁹²

3.13 The 2013 CCGs introduced a further requirement that entities must complete a risk assessment of new grant activities and new or revised grant

87 ANAO Better Practice Guide—*Administration of Grants*, Canberra, May 2002, paragraph 2.18.

88 Revised guidelines were issued: May 2007; April 2010; June 2011; November 2011; July 2012; and June 2014.

89 For example, the guidelines were amended to refer to the CCGs.

90 2009 CCGs, paragraph 3.24; 2013 CCGs, paragraph 4.5(b).

91 2009 CCGs, paragraph 3.6(b); 2013 CCGs, paragraph 4.5(d).

92 2009 CCGs, p. 26; 2013 CCGs, paragraph 8.4.

guidelines, in consultation with the Department of Finance (Finance) and the Department of the Prime Minister and Cabinet (PM&C).⁹³

3.14 The ANAO assessed the EPGP 2012 and 2014 program guidelines against the 2009 and 2013 CGG requirements, respectively. The ANAO found that, for both editions, the program guidelines generally reflected, and were developed in accordance with, the CGG requirements discussed above. In consultation with Finance and PM&C, the overall program risk was assessed as low, and both sets of guidelines were approved by the relevant portfolio minister. The 2012 and 2014 EPGP program guidelines were also published on the department's website.

Procedures

3.15 Operational guidance, including in the form of a procedures manual, is a useful tool for staff administering a grant program to ensure consistency in, for example, processing of claims. The CGGs encourage entities to develop such policies, procedures and guidelines as are necessary for the sound administration of grants, including operational guidance for the administration of the program, consistent with financial framework requirements.⁹⁴

3.16 While some procedural guidance was available to staff in earlier program phases, at the time of the current audit there was no explicit procedural document for staff administering the EPGP. The department advised in May 2014 that due to the straightforward nature of the program, it considered that operational guidance such as a procedures manual was not necessary.

3.17 The ANAO did not identify any significant procedural shortcomings for the period examined in the audit. However, in the context of a small administrative team⁹⁵ overlooking a large expenditure program, there is potential for program administration to be disrupted by the absence or loss of a key officer. Appropriate documentation of relevant key procedures would

93 Under the 2013 CGGs, where the risk level was assessed as high or sensitive, new or revised grant guidelines must be considered by the Expenditure Review Committee (ERC) of Cabinet. Where the risk was assessed as low or medium, the responsible portfolio Minister must write to the Finance Minister seeking his or her agreement to the guidelines.

94 2009 CGGs; paragraph 3.25; 2013 CGGs, paragraph 3.5(b).

95 Industry advised that resourcing associated with administration of the EPGP has been equivalent to approximately two full time equivalent staff per year. It further advised that since July 2011, it has not received any discrete Departmental appropriation to support this activity.

have been prudent, reflecting better practice and the Government's expectations as expressed in the CGGs since 2009.

Application and assessment

3.18 The application and assessment process for a granting activity should promote open, transparent and equitable access to the program, with any eligibility or threshold criteria easily understood and effectively communicated to potential applicants. Information obtained from applicants should also be sufficient to properly inform funding decisions. The basis for recommendations and decisions at all stages of the grant process must be effectively documented.⁹⁶

Application process

3.19 When the EPGP opened in 2002, the department decided to inform potential applicants of the program by emailing the (then) known ethanol producers to advise them of the program's existence and invite them to participate. Three existing Australian ethanol producers were approached directly by the department and the scheme was not advertised. Those producers who wished to participate in the program were required to supply certain information, to satisfy the eligibility criteria—being an Australian entity incorporated under the *Corporations Act 2001*, and a producer of 'eligible ethanol'. Producers were also asked to provide estimates of ethanol production, to assist with program expenditure estimates, prior to being offered a funding agreement. Two of the companies contacted by the department commenced participation in the program in 2002–03, while the third entered the program in 2003–04. As the three companies initially contacted did not submit formal applications for funding, the ANAO noted that only two formal applications have been received by the EPGP: in 2006 and in 2008.

3.20 The ANAO reviewed the information and advice currently available to potential EPGP applicants, as well as the application and assessment process for the 2008 applicant—the only one during the time period within the scope of the audit.

96 ANAO Better Practice Guide—*Administration of Grants*, Canberra, May 2002, paragraph 2.62.

3.21 The department's website provides the following guidance to prospective EPGP applicants:

- the current Program Administrative Guidelines;
- an Initial Enquiry Form;
- an Application for Funding; and
- a sample Funding Agreement.

3.22 The current publicly available materials are relatively clear, and provide potential applicants with sufficient information to make an initial enquiry about program eligibility as well as understand the information requirements associated with a formal application. The available materials also set out the key program requirements, including eligibility criteria, monitoring, reporting and compliance arrangements.

Assessment process

3.23 For the 2008 application reviewed by the ANAO, the applicant provided both a completed Initial Enquiry Form followed by a formal application in September 2008. While there was evidence that the department confirmed that the applicant was 'an Australian entity incorporated under the *Corporations Act 2001*' (one of the mandatory eligibility criteria), the department was not able to assess the 'eligible ethanol' criterion, because at the time of application, the applicant had not commenced production of ethanol. In this context, the department did not document its assessment, for the benefit of the program delegate, whether the applicant met or was likely to meet the 'eligible ethanol' criterion; a key consideration in assessing whether the application would represent a 'proper use' of Commonwealth resources.⁹⁷ In this case, it would have been appropriate for the delegate to consider approving EPGP funding on a conditional basis, subject to further inquiries in due course regarding the production of 'eligible ethanol'. In the event, the department adopted a comparable course of action when, 18 months later in March 2010, it conducted a compliance audit of the then grant recipient to satisfy itself that all EPGP payments had been for 'eligible ethanol' (see paragraph 3.37). This

⁹⁷ The assessment of 'proper use' was a key feature of the Australian Government's financial framework applying at the time. FMA Regulation 9 provided that: an approver must not approve a spending proposal unless the approver is satisfied, after making reasonable inquiries, that giving effect to the spending proposal would be a proper use of Commonwealth resources. Proper use meant efficient, effective, economical and ethical use not inconsistent with Commonwealth policies.

approach could usefully have been documented as part of the approval process for the grant, to help the department demonstrate its consideration of 'proper use' before payments were made.⁹⁸

Funding arrangements

3.24 A well-drafted funding agreement provides for a clear understanding between the parties on required outcomes. It represents a formal legal arrangement between the Australian Government (the Commonwealth) and program participants; it should establish relevant accountabilities and set out the agreed terms and conditions of the funding assistance, including performance information, access requirements, as well as clearly defined roles and responsibilities of all parties.⁹⁹

3.25 In addition, the FMA Regulations imposed specific obligations on entities in relation to entering into financial commitments with third parties. While the specific regulations that apply have changed from time to time, the overarching principle is that an official must not enter into an agreement which may financially commit the Commonwealth unless a properly authorised person (known as an approver) has considered and approved a number of matters, including whether the agreement would constitute 'proper use' of Commonwealth resources.¹⁰⁰ Such authorisations¹⁰¹ must be in place before the proposed commitment of expenditure can be entered into.

3.26 The ANAO examined the content, as well as the relevant FMA approvals and authorisations, for all (20) funding agreements, including variations, executed with the EPGP recipients from 2007-08.

98 The financial framework applying at the time required an agency approver to consider proper use and provide a financial approval before commitments of public money were entered into and any payments were made.

99 ANAO Better Practice Guide—*Administration of Grants*, Canberra, May 2002, p. 53, section 4.10; CGGs 2009, p. 22; CGGs 2013, section 12.8.

100 Section 44 of the FMA Act defined 'proper use' as 'efficient, effective, economical and ethical use that is not inconsistent with the policies of the Commonwealth'. While the reference to 'economical' use was added in 2011, the concepts of 'efficient' and 'effective' use already encompassed the concept of 'economical': Finance Circular No. 2011/01 *Commitments to spend public money (FMA Regulations 7 to 12)*, page 12, paragraph 6, Department of Finance.

101 Including approval under FMA Regulation 9, and relevant authorisations under Regulation 10 (where applicable).

EPGP funding arrangements from 2007-08

3.27 The ANAO's examination of the EPGP funding agreements found these agreements generally covered key program requirements such as: claiming and payment processes; provisions for prompt refund or recovery (including interest, where applicable) for any breaches of the agreement; grant acquittal and reporting; publication details; record-keeping, inspections and audits; and provisions for varying or terminating the agreement. For the purpose of ongoing program monitoring, the funding agreements generally provided a sound foundation for program administration.

3.28 The EPGP funding agreements were not used to assist the department's monitoring of achievements against the program's broader outcomes and expected benefits (such as the impact of the program on regional employment). The funding agreements required recipients to provide information of direct relevance to the EPGP's administration, such as the amount of ethanol produced and an estimate of future production. The department advised that it was able to draw upon other sources of information for broader monitoring purposes.

3.29 For the 20 funding agreements executed between 2007-08 and 2013-14, the ANAO found that the key financial framework requirements had been observed for 13 funding agreements. In the eight instances where an approval under FMA Regulation 10 was required, the ANAO found these requirements had been observed. However, the department was unable to provide evidence that the relevant expenditure approvals (FMA Regulation 9) had been prepared for seven of the 20 agreements, prior to their execution.¹⁰²

Claims for payment and monitoring compliance

Processing claims

3.30 After establishing an agreement covering a defined funding period, the process for participants to claim EPGP payments involves submitting a claim for payment, supported by a copy of the ATO Excise Return Form—showing

¹⁰² The seven Regulation 9 approvals that could not be located by the department are: Honan Holdings Pty Ltd for the periods 1 July 2007 to 30 June 2011, and 1 July 2011 to 30 November 2011; Schumer Pty Ltd for the period 1 July 2007 to 30 June 2011; Wilmar (also known as CSR Distilleries Operations Pty Limited and Sucrogen BioEthanol Pty Ltd) for the periods 1 July 2007 to 30 June 2011, and 1 July 2011 to 30 November 2011; Tarac Technologies Pty Ltd for the period 1 July 2007 to 30 June 2011; and Dalby Bio-Refinery Limited for the period 1 July 2011 to 30 November 2011.

the amount of excise reported and paid to the ATO—together with evidence (such as a bank statement) of the excise paid to the ATO.¹⁰³

3.31 This claims documentation process is intended to help the department confirm that EPGP payments made to program participants match precisely the amount of excise paid to the ATO, providing a measure of assurance of its program expenditure.

3.32 To support the claim assessment process, the department has developed a template for use by program staff with inbuilt formulae that calculates the amount payable based on the amount of ethanol the claimant reported as excisable. The template also prompts staff to confirm the provision of supporting documentation. Payments are authorised by two separate staff members within the relevant division—one being the program manager—prior to processing by the department’s central finance unit.

Acquittal of grant payments

3.33 EPGP payments are acquitted every quarter by assessing quarterly reports provided by each program participant. Under the terms of the funding agreements, quarterly reports provided by grant recipients must include an original signed letter from the ATO confirming the total excise paid during the preceding quarter, as well as providing information on:

- the total volume of eligible ethanol produced (in litres);
- the amount of excise paid the ATO;
- the value of any excise refunded or offset by the ATO;
- the volume in litres of any non-eligible fuel ethanol produced and the reason the ethanol is not eligible; and
- an estimate of the volume of eligible ethanol and corresponding excise value that the producer expects to produce in the future.¹⁰⁴

3.34 In completing its grant payment acquittal process during 2007–2014, the officer undertaking the acquittal used a pro-forma checklist to confirm that all required documentation had been provided by individual grant recipients

103 EPGP claims (and their associated reimbursements) are generally payable on a weekly basis, reflecting the customary practice and timing for excise payments to the ATO.

104 This data also helped the department project likely future program expenditure estimates.

and that the department's record of EPGP payments exactly matched the ATO's record of excise received and the recipient's summary of claims made.

3.35 For the past six years, the payment of funds relating to the EPGP has been included in the ANAO's annual financial statements audits of the various entities tasked with the administration of the EPGP (see paragraph 1.30). The ANAO's audit of financial statements is risk-based, and has evolved over the past six years from the testing of random samples of EPGP payments, to the full testing of EPGP payments in the past three years. Each year, the ANAO has concluded that the controls related to payments made under the EPGP were operating effectively, providing reasonable assurance that claims were made in accordance with the requirements of the funding agreements, and that payments were made accurately and reconciled each quarter with ATO records of excise paid (ATO records were provided as part of the recipients' quarterly reports).

Monitoring compliance

3.36 Integral to the success of the grant funding process is an on-going monitoring regime to ensure grant recipients are meeting agreed milestones and other key requirement of their grant agreements.¹⁰⁵

3.37 In the program administration period examined by the ANAO (2007 to 2014), the department conducted formal compliance reviews for all EPGP recipients.¹⁰⁶ These compliance reviews were designed to: assess a sample of claims made under the program within a specified time period; and verify that the payment claims for ethanol met the definition of 'Eligible Ethanol'. The compliance review process involved: site visits to ethanol production facilities; viewing the operation of production plants; and examining systems used to manage the production and sale of ethanol.

3.38 The ANAO observed that the three major grant recipients¹⁰⁷ have been subject to multiple compliance reviews throughout their EPGP participation, providing full coverage of granting periods from 1 December 2004 to

105 ANAO Better Practice Guide—*Implementing Better Practice Grants Administration*, Canberra, December 2013, p. 88.

106 In 2012, Price Waterhouse Coopers conducted external compliance reviews for all organisations then receiving financial assistance. All other compliance reviews had been conducted by departmental officers.

107 Da by, Honan Holdings and Wilmar.

31 May 2013.¹⁰⁸ In addition, all remaining grant recipients¹⁰⁹ have been subject to at least one compliance review during their funding period.

3.39 No significant compliance issues were identified in the EPGP compliance review reports.

Program reporting

3.40 Program reporting is intended to focus on the objectives of a program, its resourcing, the deliverables it produces and the key performance indicators (KPIs) that measure effectiveness.¹¹⁰ Program reporting includes internal reporting such as reporting to management and external reporting such as departmental annual reports and website publication.

Internal reporting

3.41 It is important that grant-giving entities define the purpose and objectives of grant programs and plan appropriate monitoring and review activity to ensure the efficient and effective achievement of funding objectives.¹¹¹ Performance measurement and reporting allows managers to provide sound advice on the appropriateness, success, shortcomings and future directions of programs. In order to effectively assess performance, it is necessary that entities have KPIs that enable the measurement and assessment of progress toward meeting relevant objectives. KPIs should be relevant, reliable and complete and provide a balanced examination of the overall program performance, both quantitatively and qualitatively, and collectively address the program objective.¹¹²

3.42 The department has reported regularly to its senior executive on EPGP administrative matters since 2004. However, the department first developed a set of KPIs for the EPGP in 2009—seven years after its establishment—and a revised

108 In May 2014, Industry advised that in light of the government's decision to close the EPGP from 30 June 2015, combined with the current ANAO audit and the results of the previous two compliance reviews which found no instances of non-compliance, it would not conduct a compliance review for 2014. Industry also advised it would conduct a thorough end of program evaluation incorporating a final compliance audit.

109 Schumer and Tarac.

110 ANAO Audit Report No.28 2012-13 *The Australian Government Performance Measurement and Reporting Framework: Pilot Project to Audit Key Performance Indicators*, Canberra, April 2013, p. 43.

111 ANAO Better Practice Guide—*Administration of Grants*, Canberra, May 2002, p. 6.

112 ANAO Audit Report No.28 2012-13 *The Australian Government Performance Measurement and Reporting Framework: Pilot Project to Audit Key Performance Indicators*, Canberra, April 2013, p. 63.

set of KPIs was introduced in 2012 (see Appendix 1). The 2009 KPIs contained some useful indicators aimed at assessing aspects of the EPGP performance (such as the rate of growth of ethanol produced, and the volume and percentage of ethanol used in transport fuel over the life of the program). In contrast, the 2012 KPIs were much simplified and did not enable this type of assessment. However, both sets of KPIs provided limited scope for a broader assessment of the program's intended outcomes and the claimed benefits expected by Government. In any event, the ANAO found that the department did not report against either set of KPIs as a basis for regular or systematic reporting to the department's senior executive or the Minister on program outcomes.

External reporting

3.43 Effective disclosure and reporting arrangements for grants are essential for reasons of transparency and public accountability. Reliable and timely information on the details of grants awarded is a precondition for public and parliamentary confidence in the quality and integrity of grants administration.¹¹³ In this context, entities are subject to three separate, but related, public disclosure arrangements for grants:

- a requirement to publish in their Annual Report a list of grant programs for which they are responsible¹¹⁴;
- in accordance with Senate Order 13¹¹⁵, a requirement to publish on their website a list of contracts entered into with a value greater than \$100 000; and
- since the introduction of the CGGs in 2009, a requirement to publish on their website details of individual grants within specific timeframes.¹¹⁶

3.44 The ANAO assessed the department's compliance with each of these requirements since December 2011 (when the then Department of Resources, Energy and Tourism assumed responsibility for the EPGP), and found that the

113 2009 CGGs, section 4 'Public Reporting'; 2013 CGGs, section 5 'Public Reporting'

114 *Requirements for Annual Reports*, approved by the JCPAA, are issued annually by the Department of the Prime Minister and Cabinet. The latest edition was issued on 29 May 2014. <https://www.dpmc.gov.au/guidelines/docs/annual_report_requirements_2013-14.pdf> [accessed 8 October 2014]

115 http://www.aph.gov.au/About_Parliament/Senate/Powers_practice_n_procedures/standingorders/d05 [accessed 30 September 2014]

116 The 2009 and 2013 CGGs required entities to publish details no later than seven days after the funding agreement takes effect; the 2014 CGGs extended this period to 14 days. The 2014 EPGP program guidelines highlight the need to report in accordance with the CGGs.

first two of these requirements had been met. With respect to website reporting, the ANAO found that at the time of fieldwork (August 2014), the department had not published the details of the 1 July 2014 funding agreements. However, following the ANAO's query, the department acted promptly to put the necessary information on its website.

3.45 There has been no public KPI reporting of the program achievements in the Department's Annual Reports.

EPGP Evaluation

3.46 Reviewing the progress of policy initiatives is a fundamental element of sound governance and quality management. It supports ongoing assessment of progress and risks and informs decisions about whether an initiative, as planned, is still achievable, or whether its scope, timing or resourcing need to be adjusted. Evaluating the performance and success of an initiative at key points during the implementation process can help entities assess the extent to which the implementation approach adopted contributed to achieving policy objectives.¹¹⁷

3.47 Chapter 2 of this audit report sets out various advices provided by stakeholder entities, including Industry and the central agencies, to successive governments, including on the extent to which the EPGP has met its objectives. Two significant reviews of the EPGP were also conducted in the period 2007–2014:

- a *Biofuels Internal Government Review*, conducted by the Department of Resources, Energy and Tourism and the Department of Agriculture, Fisheries and Forestry in 2008¹¹⁸; and
- *An assessment of key costs and benefits associated with the Ethanol Production Grants Program*, conducted by the Bureau of Resources and Energy Economics in February 2014.¹¹⁹

117 ANAO Better Practice Guide—*Successful Implementation of Policy Initiatives*, October 2014, Canberra, p. 61.

118 The Department of Resources, Energy and Tourism and the Department of Agriculture, Fisheries and Forestry, *Biofuels Internal Government Review*, July 2008. [Not publicly released].

119 Bureau of Resources and Energy Economics, *An assessment of key costs and benefits associated with the Ethanol Production Grants program*, February 2014.

3.48 As discussed in Chapter 2, the key findings of these reviews were, in essence, that the EPGP had delivered limited benefits, notwithstanding its significant cost to successive Australian governments and the taxpayer.

Conclusion

3.49 In September 2002 Prime Minister Howard announced publicly that the EPGP would commence within a week, providing the administering department¹²⁰ with very limited opportunity to plan for program implementation. The department focussed initially on establishing funding arrangements with existing producers, consistent with the core program parameters set by Ministers. When the program was subsequently extended, the department formalised several of the program's key administrative supports, such as application forms and program guidelines; placing its grants administration on a sounder footing. The program guidelines examined by the ANAO were clear and generally reflected the requirements of the grants administration framework. While the program guidelines referred to the Prime Minister's 2002 statement about the program, an explicit program objective and set of program outcomes were only developed in the course of preparing the July 2012 guidelines.

3.50 The EPGP is a demand-driven grants program which allows for applications to be submitted at any time. Since its establishment, only two formal applications have been submitted to the administering department—in 2006 and 2008—as the three companies initially contacted in 2002 were directly invited to enter into a funding agreement.

3.51 As part of its assessment process for the 2008 application, the then Department of Resources, Energy and Tourism did not document its assessment of the applicant's claims against all of the program's mandatory criteria. In particular, the department did not advise the program delegate whether the applicant met or was likely to meet the 'eligible ethanol' criterion¹²¹—a key consideration in assessing whether the application would

120 The then Department of Industry, Tourism and Resources.

121 See footnote 74.

represent a 'proper use' of Commonwealth resources.¹²² In this case, as the applicant advised that it had not yet commenced production of ethanol, it would have been appropriate for the delegate to consider approving EPGP funding on a conditional basis, subject to further inquiries in due course regarding the production of 'eligible ethanol'. In the event, the department adopted a comparable course of action when, eighteen months later in March 2010, it conducted a compliance audit of the then grant recipient to satisfy itself that all EPGP payments had been for 'eligible ethanol'. The department's approach could usefully have been documented as part of the approval process for the grant, to help the department demonstrate its consideration of 'proper use' before payments were made.¹²³

3.52 The ANAO examined all 20 of the EPGP funding agreements, including variations, executed since 2007-08 and found that the key financial framework approval requirements had been observed in 13 of these agreements. Where required, Regulation 10 approvals had also been obtained.¹²⁴ However, departmental records could not demonstrate that the relevant expenditure approvals had been prepared for seven of these 20 funding agreements prior to their execution.

3.53 Departmental processes for accepting, verifying and paying EPGP claims by grant recipients has been assessed by the ANAO as part of its financial assurance audit process over each of the last six years, providing reasonable assurance that payments have been correctly and accurately made and reconciled each quarter with the ATO's records. In addition, a sound arrangement was established for ongoing monitoring of recipients' compliance with the key program requirements, including through a program of external and internal compliance reviews.

122 The assessment of 'proper use' was a key feature of the Australian Government's financial framework applying at the time. FMA Regulation 9 provided that: an approver must not approve a spending proposal unless the approver is satisfied, after making reasonable inquiries, that giving effect to the spending proposal would be a proper use of Commonwealth resources. Proper use meant efficient, effective, economical and ethical use not inconsistent with Commonwealth policies.

123 The financial framework applying at the time required an agency approver to consider proper use and provide a financial approval before commitments of public money were entered into and any payments were made.

124 Regulation 10 of the former financial management framework required the Finance Minister or a delegate to provide written agreement before an agency entered into an arrangement where there was insufficient available appropriation to cover expenditure that might become payable under the arrangement.

3.54 Departmental reporting on the EPGP has been mixed. Reporting requirements set out in participants' funding agreements facilitated ongoing monitoring of program administration. However, the reporting requirements contained in the funding agreements were not designed to help the administering department to monitor achievements against the program's intended outcomes and claimed benefits (such as the impact of the program on regional employment).

3.55 Further, for the first seven years of the program's operation, there were no program-level key performance indicators (KPIs) established for the purposes of internal or external reporting. In 2009 (with revisions made in 2012) internal KPIs were developed but there was no indication that they were used to report to senior departmental management or the Minister to assist with an assessment of whether the EPGP was achieving its objectives. Until 2014–15, public reporting related to 'Delivery of the Ethanol Production Grants Program', a broad activity measure which offered no insight into program performance. A revised KPI was published in Industry's 2014–15 Portfolio Budget Statement, relating to the number of companies that received payments under the program. This KPI offered some improvement over the previous measure but nonetheless provided a very limited basis for assessing achievement of the program's objectives and outcomes released in 2012.

3.56 The department has largely met its external reporting requirements, although there has been limited public reporting on the EPGP in its Annual Reports.

3.57 The Government announced the closure of the EPGP in the 2014-15 Budget, effective from 30 June 2015. Internal advice to the program delegate in May 2014 indicated that the department planned a thorough end of program evaluation, incorporating a final compliance audit, to be undertaken in the final quarter of 2014–15.


Ian McPhee
Auditor-General


28 January 2015

Appendices

Appendix 1: Entity Response



Australian Government
Department of Industry

Secretary

Dr Tom Ioannou
Group Executive Director
Performance Audit Services Group
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Dr Ioannou

I refer to your letter of 12 December 2014, seeking comment from the Department of Industry on the proposed audit report on the Ethanol Production Grants Program.

The ANAO report acknowledges the Ethanol Production Grants Program was originally introduced as a short term measure in 2002 to assist the development of an Australian ethanol industry. It has been extended by successive Australian governments and the program is scheduled to close from 1 July 2015.

The ANAO has concluded the department's administration of the Program has been effective. The report also notes the department's intent to conduct an end-of-program evaluation, incorporating a final compliance audit of grant recipients.

Please find the department's response for inclusion in the body of the report at Attachment A.

I thank the ANAO team for the professional approach taken during the audit process.

Yours sincerely

A black rectangular redaction box covering the signature of Glenys Beauchamp.

Glenys Beauchamp

19 December 2014

A large black rectangular redaction box covering several lines of text at the bottom of the letter.

Appendix 2: International Support For Ethanol Production

1. Many other governments (both federal and state or provincial) around the world have provided support for ethanol. In December 2007, a report of the Global Subsidies Initiative of the International Institute for Sustainable Development¹²⁵ found that almost 40 countries or their states or provinces¹²⁶ provided either an excise tax reduction or a rebate for the production of ethanol. The report expressed these reductions or rebates on a common basis of Euros per litre, varying from €0.0020/litre in Delaware (USA) to €0.5922/litre in Belgium, with Australia’s ethanol rebate converted to €0.2310/litre.

2. By comparison with other countries, Australia is a very small producer of ethanol. Table A.1 shows that with annual ethanol production of 0.3 billion litres of ethanol in 2013, Australia accounted for less than one third of one percent of global production.

Table A.1: Ethanol global production, 2013

Country	Production (in billions of litres)
United States	50.3
Brazil	25.5
China	2.0
Canada	1.8
France	1.0
Thailand	1.0
Germany	0.8
Argentina	0.5
Colombia	0.4
Belgium	0.4
Spain	0.4
Netherlands	0.3
Australia	0.3

125 The Global Subsidies Initiative, *Subsidies: The Distorted Economics of Biofuels*, December 2007.

126 Australia, Austria, Belgium, Brazil, the Canadian provinces of Alberta, British Columbia, Manitoba, Ontario and Saskatchewan, Denmark, France, Hungary, Ireland, Italy, Lithuania, Luxembourg, Poland, Slovakia, Spain, Sweden, Switzerland, the United Kingdom and the American states of Arkansas, California, Delaware, Florida, Idaho, Indiana, Iowa, Maine, Minnesota, Missouri, Montana, New York, North Carolina, Oklahoma, Pennsylvania and South Dakota.

Country	Production (in billions of litres)
Poland	0.2
Other	2.3
Total	87.2

Source: REN21 (Renewable Energy Policy Network for the 21st Century), *Renewables 2014 Global Status Report*.

Appendix 3: Ethanol Production Grants Program Key Performance Indicators

Table A.2: 2009 EPGP Key performance indicators (KPIs)

KPI	Metric
1. Policy objective of encouraging the use of biofuels in transport over time is met.	<ul style="list-style-type: none"> • Rate of growth of ethanol produced by customers over the life of the program. • Volume and % of ethanol used in the transport fuel mix over the life of the program. • Number and productive capacity of ethanol producers in Australia.
2. Program delivery is effective and efficient.	<ul style="list-style-type: none"> • Roles and responsibilities between policy and program delivery are clear and agreed. • Appropriate delegations are in place and adhered to. • Contracts are developed in accordance with program objectives, government decisions, legal advice and incorporate milestones and reporting and non-compliance obligations. • Key program risks are identified and being managed.
3. Program is effectively communicated to key stakeholders.	<ul style="list-style-type: none"> • Program guidelines are clear and understood by key stakeholders and customers. • Minister's Office and Government have a high level understanding of the EPG and are regularly appraised of key issues. • Reporting and communication mechanisms for the EPG are established and effective.
4. Financial management of the EPG is in accordance with FMA Act.	<ul style="list-style-type: none"> • Grant payments are made in accordance with financial delegations and procedural rules. • Program commitments do not exceed appropriations. • Appropriate financial management reporting and reconciliations are undertaken. • Program audits identify no significant issues. • Appropriate controls to minimise and identify fraudulent activities are in place and effective.
5. Evaluation of the EPG is comprehensive and independent.	<ul style="list-style-type: none"> • Evaluation methodology and performance information is identified and being collected. • Evaluation is timely and independent.

Source: ANAO analysis from Industry documentation.

Table A.3: 2012 EPGP KPIs: Program outcomes

Outcome	KPI	Information/Data for measurement
Encourage the use of environmentally sustainable fuel ethanol as an alternative transport fuel in Australia.	Amount of ethanol for transport use in Australia.	Litres per quarter/annum.
Increase the capacity of the domestic ethanol industry to supply the transport fuel market.	Ethanol for transport use production capacity.	Litres per quarter/annum.
Improve the long term viability of the ethanol industry in Australia.	Track domestic ethanol for transport use producers in the market.	Number of producers.

Source: ANAO analysis from Industry documentation.

Table A.4: 2012 EPGP KPIs: Program delivery

Phase	Activity/ Input	KPIs
Initiation	N/A: Program commenced in 2002/03.	N/A
Design	N/A: Program commenced in 2002/03.	N/A
Governance and Regulation/ Legal	Program performance and grant recipients activities. Program documentation.	Program and grant recipients performance assessed as adequate. Approved and in place.
Applications	Enquires response. Application documentation is maintained up-to-date. Applications can be submitted at any time.	Within a week. Application documentation is available when required.
Selection and Award	Applications assessment process as per Program Administrative Guidelines.	Assessment process completed within 3 months of receipt of application, subject to external approval process timing by ERC/Cabinet
Negotiation	Funding Agreement drafting and internal approval. Funding Agreement discussion with applicant. Funding Agreement executed.	Within 1 month. Within 1 month. Within 2 weeks.
Contract Management and Quality Assurance	Grant Recipients payment claim assessed. Payments made. Grant recipients quarterly reports assessed. Program Reporting and management including risk management, compliance and PMDC. Funding Agreement variation. Briefing executive and Minister on Program.	- Within 3 days. Within 2 weeks. Accepted by PMDC. As per negotiation above. Accepted by Executive and Minister.

Phase	Activity/ Input	KPIs
Finalisation and Post Implementation Review	Make final payment. Accept final report. Present Audit Report. Share knowledge management.	Completed within 3 months of program/project cessation.
Program Evaluation	Conduct and report on Program Evaluation.	Program Evaluation Report accepted.

Source: ANAO analysis from Industry documentation.

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