

# New Zealand Trade and Enterprise: Administration of grant programmes



Report of the

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*Tumuaki o te Mana Arotake*

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**New Zealand Trade and**

**Enterprise: Administration**

**of grant programmes**

**December 2004**

*This is the report of a performance audit  
we carried out under section 16 of the  
Public Audit Act 2001.*

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## FOREWORD

In 2003, I conducted 2 inquiries that found weaknesses in the administration of grant programmes by government agencies: *Inquiry into Public Funding of Organisations Associated with Donna Awatere Huata MP* and *Industry New Zealand – Business Growth Fund Grant to The Warehouse*. These inquiries raised a number of issues around how well grant programmes were administered by government agencies, including Trade New Zealand and Industry New Zealand.

In July 2003, Trade New Zealand and Industry New Zealand – 2 very different organisations, with different systems and processes – were merged to form New Zealand Trade and Enterprise (NZTE). In 2003-04, NZTE was appropriated \$47 million for grants and awards to firms, sectors and regions.

NZTE inherited these grant programmes from its predecessor organisations. Some of the programmes are being administered more effectively and efficiently than others. However, all have aspects where improvements could be made.

I decided it would be timely to undertake a performance audit of NZTE's grant programmes. I looked at whether the grant programmes were being administered effectively and efficiently, and in keeping with the policy parameters set by Cabinet.

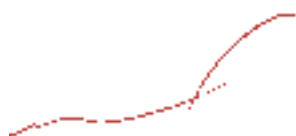
NZTE has not yet established a framework to ensure that, for each grant programme, consideration has been given to important aspects of grant administration, including the assessment of risk, data collection and reporting, documentation, and monitoring practices.

NZTE's approach to the Strategic Investment Fund was of particular concern. The guidelines and assessment procedures were inadequate, and in some cases we were unable to ascertain whether Cabinet criteria for this fund had been met.

Any Government agency responsible for grant programmes must administer them effectively and efficiently. I do not believe this is, or has been, the case with all the grant programmes that NZTE and its predecessor organisations have administered. There is considerable work to be done to ensure that sound administrative principles and standards are applied to all aspects of the grant programmes.

NZTE has already provided me with a response to the findings of the audit, setting out how it intends to implement each of the recommendations in this report. I look forward to undertaking a follow-up review in 2 years to assess progress against the recommendations.

I thank members of the Board and the staff of NZTE for their co-operation with this performance audit.



K B Brady

Controller and Auditor-General

1 December 2004



## Contents

	<i>Page</i>
<b>Summary</b>	9
Introduction	9
Findings across the grant programmes	10
The Growth Services Fund	12
Enterprise Development Grants	13
Enterprise Network Grants	13
The Major Events Fund	14
The Strategic Investment Fund	14
Evaluation of grant programmes	15
Recommendations	16
<b>Part 1 – Introduction</b>	17
Why did we audit the administration of grant programmes?	17
What is New Zealand Trade and Enterprise?	17
How did we carry out our audit?	20
Structure of our report	23
<b>Part 2 – Findings across the grant programmes</b>	25
Introduction	25
Merger of Industry New Zealand and Trade New Zealand	25
Variation in the approaches taken to administering the grant programmes	26
Data collection and reporting practices	27
Standards of documentation	28
Approach to the assessment of risk	29
Monitoring, and collecting monitoring information	30

	<i>Page</i>
<b>Part 3 – The Growth Services Fund</b>	<b>33</b>
Introduction	33
Cabinet criteria for the award of Growth Services Fund grants	34
The application process	37
Monitoring of Growth Services Fund grants	42
<b>Part 4 – Enterprise Development Grants</b>	<b>45</b>
Introduction	45
Cabinet and additional NZTE criteria for the award of Enterprise Development Grants	46
The application process	48
Monitoring of Enterprise Development Grants	53
<b>Part 5 – Enterprise Network Grants</b>	<b>55</b>
Introduction	55
Cabinet and additional NZTE criteria for the award of Enterprise Network Grants	56
The application process	60
Monitoring of Enterprise Network Grants	65
<b>Part 6 – The Major Events Fund</b>	<b>67</b>
Introduction	67
Criteria for the award of Major Events Fund grants	68
The application process	70
Monitoring of Major Events Fund grants	74
<b>Part 7 – The Strategic Investment Fund</b>	<b>77</b>
Introduction	77
Cabinet criteria for the award of Strategic Investment Fund grants	79
The application process	81
Monitoring of Strategic Investment Fund grants	87



	<i>Page</i>
<b>Part 8 – Evaluation of grant programmes</b>	91
Introduction	91
Roles and responsibilities for grant programme evaluation	92
Evaluation activity occurring within NZTE	94
Assessment of the evaluation of NZTE’s grant programmes	96
<b>Figures</b>	
1 Summary of findings for the grant programmes examined	12
2 Organisational structure of NZTE from 1 July 2003 to 30 June 2004	18
3 Organisational structure of NZTE from 1 July 2004	19
4 Grant programmes examined as a proportion of NZTE’s appropriation for grants in 2003-04	20
5 Number of grant applications examined	22
6 Approved applications under the Growth Services Fund	33
7 Approval process for Growth Services Fund grants	38
8 Applications for Enterprise Development Grants in 2003-04	46
9 Approval process for Enterprise Development Grants	49
10 Approved applications for Enterprise Network Grants in 2003-04	55
11 Approval process for Enterprise Network Grants	61
12 Applications to the Major Events Fund since 2000-01	67
13 Approval process for Major Events Fund grants	71
14 Applications to the Strategic Investment Fund since 2000-01	78
15 Approval process for Strategic Investment Fund feasibility study grants	82
16 Approval process for Strategic Investment Fund guarantees of funding and cash grants	84
17 In-depth evaluation roles and responsibilities	93
18 Evaluation timetable for the grant programmes subject to our audit	95





# SUMMARY

## Introduction

In 2003, we conducted 2 inquiries that found weaknesses in the administration of grant programmes. The first inquiry – *Industry New Zealand – Business Growth Fund Grant to The Warehouse*<sup>1</sup> – identified administration deficiencies with the Business Growth Fund. The second inquiry – *Inquiry into the Public Funding of Organisations Associated with Donna Awatere Huata MP*<sup>2</sup> – revealed poor contract management and monitoring in relation to the Export Network Fund.

At the time of those inquiries, the 2 funds were administered, respectively, by Industry New Zealand and Trade New Zealand. In July 2003, those 2 entities were merged to form New Zealand Trade and Enterprise (NZTE).

NZTE has needed to manage a significant amount of change following the merger of Industry New Zealand (the Government's economic development agency) and Trade New Zealand (the Government's trade promotion agency).

In the 2003-04 year, NZTE was appropriated \$47.064 million for grants to firms, sectors and regions. Nearly half of this appropriation is accounted for by the 5 grant programmes discussed in this report:

- the Growth Services Fund;
- Enterprise Development Grants;
- Enterprise Network Grants;
- the Major Events Fund; and
- the Strategic Investment Fund.

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<sup>1</sup> Reported to Rodney Hide MP, 29 July 2003.

<sup>2</sup> ISBN-0-478-18111-6, November 2003.

We decided to conduct an audit to assess how effectively and efficiently the grant programmes, for which NZTE assumed responsibility in 2003, were being administered. We did not look at whether grant programmes were meeting their objectives, or the performance of grant recipients.

### Findings across the grant programmes

Regardless of the type or size of the grants awarded under the different programmes, we expected grant programmes to be designed to meet specific, measurable objectives. We expected assessment, approval, and management of applications to be robust, and to comply with well-defined guidelines and procedures. Approved grants should be effectively monitored, and we expected programmes to be evaluated.

During the course of our audit, we found:

- variable data collection and reporting practices;
- variable standards of documentation;
- an inconsistent approach to the assessment of risk; and
- inconsistent approaches to monitoring.

NZTE has not yet developed a common framework to ensure that, for each grant programme, consideration is given to the key aspects of grants administration. We expected NZTE to have started to consider and document, for each grant programme, how it would collect and store application data, assess applications, assess risk, approve grants, monitor grants, and evaluate the effectiveness of its grant programmes.

A summary of our findings for each grant programme is provided in Figure 1 on page 12.

### *Data collection and reporting*

The quality of the data maintained by NZTE was variable. NZTE collected comprehensive data for some grant programmes, but the data available for the Enterprise Network programme was particularly poor.

NZTE was unable to tell us how many grant recipients were in each Enterprise Network, and had considerable difficulty in telling us how much had been paid to each Enterprise Network to date. Poor data collection has implications for the integrity of NZTE's reporting.

## *Standard of documentation*

Similarly, the standard of documentation held across the grant programmes varied. A good standard of documentation had been maintained for some grant programmes, but in others – and in particular, the Strategic Investment Fund – the quality of the documentation was poor.

## *Assessment of risk*

NZTE does not yet have a consistent approach to the assessment of risk. The approach for the Growth Services Fund was comprehensive, but practices across the other grant programmes were not as thorough. This has implications for determining who should be awarded grants, and also affects how well NZTE is able to focus its monitoring efforts once a grant has been approved.

## *Monitoring*

Finally, the monitoring of grant recipients and the collection of monitoring information was inconsistent between grant programmes. For Enterprise Development Grants, for example, 20% of each grant was withheld until the grant recipient provided the required report at the completion of a project. In some other grant programmes, however, no funding was withheld; nor was there any requirement for grant recipients to provide NZTE with information on the impact of the funding.

## *Summary*

The nature and scale of our findings indicates that there are common areas of weakness in NZTE's administration of its grant programmes that will require significant management effort to address. NZTE has assured us that it is addressing our concerns.

We recommend that NZTE review all its grant programmes to ensure that it is administering them appropriately. For all grant programmes, this includes ensuring that a sound set of administrative principles and standards are applied to:

- policies and procedures manuals;
- assessment of risk;
- documentation;
- decision-making processes; and
- monitoring of grant recipients.

*Figure 1  
Summary of findings for the grant programmes examined*

	Growth Services Fund	Enterprise Development Grants	Enterprise Network Grants	Major Events Fund	Strategic Investment Fund
<b>Criteria</b>	Criteria not always adequately considered	Criteria met in sample examined	Applications often lacked supporting evidence	Criteria met in sample examined	Criteria not met in some cases. Unable to ascertain if criteria had been met in other cases.
<b>Guidelines</b>	From October 2003, satisfactory	Comprehensive	Being developed	Adequate	Inadequate
<b>Documentation</b>	Variable	Satisfactory	Variable	Variable	Poor
<b>Risk</b>	Comprehensive approach	Some consideration given to assessment of risk	No specific risk analysis	No comprehensive risk profiling of applicants	Minimal risk profiling of applicants
<b>Assessment procedures</b>	Satisfactory	Satisfactory	Mostly satisfactory	Satisfactory	Unsatisfactory
<b>Monitoring, and collecting monitoring information</b>	Satisfactory	Thorough	Variable	Inadequate	Poor

## The Growth Services Fund

The Growth Services Fund (GSF) exists to assist small and medium-sized enterprises to access new business opportunities, skills and expertise, innovation and new technologies, and finance. Recipients must be committed to increasing the size and scale of their business.

In the assessment of some GSF applications, the criteria set by Cabinet for the Fund were not adequately considered. The Cabinet criteria need to be explicitly addressed, so that it is clear that the Government's intentions and instructions are being followed.

NZTE has had satisfactory operating guidelines for the GSF since October 2003. The standard of documentation held by Client Managers was variable, but the central payment and contract management files were complete. NZTE has developed a comprehensive approach to risk for GSF applicants.

NZTE's assessment procedures and the collection of monitoring information were satisfactory.

## Enterprise Development Grants

Enterprise Development Grants (EDGs) assist individual entrepreneurs and companies to gain additional business skills, through obtaining external expertise and gaining assistance in developing business projects.

NZTE has developed a comprehensive operational procedures manual for members of the EDG Team. In the sample of grants we examined, the Cabinet criteria were met.

Some consideration had been given to the assessment of risk when considering grant applications, and grant files were generally well-organised.

NZTE's assessment procedures were satisfactory. We found NZTE's monitoring of EDG recipients to be thorough, with 20% of each grant being withheld until grant recipients had submitted the required final report.

## Enterprise Network Grants

Enterprise Network Grants assist groups or networks of businesses to gain additional business skills, through increased business opportunities and obtaining external expertise in developing network-based business projects.

Assessment sheets that were used to score applications included assertions that the Cabinet criteria were met. Supporting evidence was often missing from the files.

NZTE has an internal Enterprise Network fact sheet for Client Managers. At the time of our audit, NZTE had also developed a draft process manual. NZTE is now significantly revising its internal documents.

The standard and level of documentation within individual Client Manager files was variable. In many cases, important documents, such as credit checks, were missing from the files. There was no specific risk analysis of companies receiving funding. In some cases, the application for funding listed only the names of companies applying for funding, and there was little or no analysis of the companies involved.

NZTE's assessment procedures could be improved. All applications received a score based on an assessment sheet. It was possible for applications to receive a score of zero in one or more of the areas identified in the assessment sheet, but still be approved.

The monitoring of grant applications was variable. In some cases, grant recipients had provided NZTE with the required completion report forms. In other cases, there was no evidence of any monitoring after a grant had been approved.



### The Major Events Fund

The Major Events Fund supports major events that have the potential to create or contribute to wider economic development opportunities.

In the sample of files we examined, the Cabinet criteria were met. NZTE has adequate guidance for the Major Events Fund. Although the documentation in the files varied, the Events Group Manager had reviewed the files in 2003 and identified that documentation was missing. At the time of our audit, NZTE was already taking steps to rectify this situation.

No comprehensive risk profile of applicants is completed. Such risk profiles should be developed.

NZTE's assessment procedures for the Major Events Fund were satisfactory. However, because of the lack of definition around how to interpret and score each element of the assessment matrix, there could be inconsistency in how scores are awarded.

There was some evidence of monitoring after approval of funding, but the monitoring was often inadequate. NZTE did not require grant recipients to submit standard information upon the completion of an event. Some reports had been submitted by grant recipients, but the information provided did not follow a standard format, and was therefore not readily comparable. This makes future evaluations of the Fund more difficult.

### The Strategic Investment Fund

The Strategic Investment Fund (SIF) exists to:

- encourage significant investment in new added-value projects;
- demonstrate the Government's commitment to support major new investments;
- provide firms making significant investment decisions with an informed opportunity to compare the benefits of investing in New Zealand with other options; and
- identify any impediments to investments proceeding, and, where appropriate, advise the Government of the need for procedural change.

In many cases, we were unable to ascertain whether the Cabinet criteria had been met, as the documentation for those grants did not address the criteria explicitly enough. Further, NZTE has not determined how the Cabinet criteria are to be applied.



NZTE had a 3-page set of guidelines for the SIF. These guidelines were inadequate. They did not describe how an application was to be processed or considered, how the Cabinet criteria were to be applied, or how risk was to be assessed.

Important documents were missing from many files. The standard of documentation in the files was poor, and the audit team often had difficulty tracing grants through the application process.

NZTE undertook minimal risk profiling of SIF applicants, and the approach to risk under this programme was poor. This was of particular concern, given the size of the grants able to be awarded under the SIF.

NZTE's assessment procedures for grants under the SIF are not satisfactory. The Chief Executive of Investment New Zealand<sup>3</sup> approves feasibility study grants on a case-by-case basis, and does not have a clear framework for assessing applications.

We saw little evidence of monitoring documentation in the files. Controls over the payment of SIF grants were inadequate, with submitted invoices containing very little information. For example, it was not clear who had undertaken the work, or how charges had been calculated.

## Evaluation of grant programmes

Programme evaluation plays a key role in understanding how effective Government programmes are. The Ministry of Economic Development (MED) and the Ministry of Foreign Affairs and Trade (MFAT) are jointly responsible for monitoring and evaluating NZTE's services. NZTE also has an internal Strategy and Evaluation group.

Before the merger that formed NZTE on 1 July 2003, different evaluation approaches were applied – Industry New Zealand focused on activity measures while Trade New Zealand focused on outcome measures.

The main evaluative activity that has taken place in relation to NZTE has been:

- in-depth or programme reviews by MED and MFAT;
- an annual review by MED that provides an assessment of programme performance to date; and
- development of evaluation and research plans by MED.

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<sup>3</sup> Investment New Zealand is a business unit within NZTE, and is New Zealand's dedicated investment promotion agency.



## SUMMARY

At the time of our audit, evaluation and research plans had been developed for only 2 of the 5 grant programmes discussed in this report. Some evaluation activity has taken place; namely an in-depth review of the Implementation of Investment New Zealand. We found evidence of the results of that evaluation being fed into the future design of the programmes administered by Investment New Zealand.

### **Recommendations**

Based on the findings of our audit, we have made 47 recommendations, spread throughout this report, for NZTE to improve its administration of grant programmes.

# INTRODUCTION

## Why did we audit the administration of grant programmes?

- 1.1 It is important that agencies can assure Parliament that grants are given in accordance with the Government's intentions, and that grant recipients spend the money as intended.
- 1.2 In 2003, we conducted 2 inquiries that revealed deficiencies in the administration of grants. The *Inquiry into Public Funding of Organisations Associated with Donna Awatere Huata MP* and *Industry New Zealand – Business Growth Fund Grant to The Warehouse* reports raised a range of issues around how well grant programmes are being administered by government agencies.
- 1.3 We decided it would be timely to undertake a performance audit, under section 16(1) of the Public Audit Act 2001, looking specifically at NZTE's administration of grants.

## What is New Zealand Trade and Enterprise?

- 1.4 New Zealand Trade and Enterprise (NZTE) was formed on 1 July 2003, following the merger of Industry New Zealand and Trade New Zealand. Trade New Zealand was the Government's trade promotion agency and Industry New Zealand was the Government's economic development agency.
- 1.5 One branch of NZTE, Investment New Zealand, had been established a year earlier (July 2002), following a decision to combine the Investment New Zealand function of Trade New Zealand and the major investment functions of Industry New Zealand. Investment New Zealand was originally set up as a business unit, with a Chief Executive who reported directly to the Board of Industry New Zealand.

1.6 Section 3(2) of the New Zealand Trade and Enterprise Act 2003 established NZTE as a Crown entity –

*... responsible for facilitating (in co-operation with industry, central and local government, and relevant community groups) the development and implementation of strategies, programmes, and activities for trade, industry, and regional development as directed by the Government.*

1.7 A Board of 9 members governs NZTE. The Secretary of Foreign Affairs and Trade and the Chief Executive of the Ministry of Economic Development are Special Advisors who assist the Board in aligning NZTE strategies with government policy.

1.8 The organisational structure of NZTE changed during our audit. Figure 2 below sets out the organisational structure from 1 July 2003 to 30 June 2004. The organisational structure from 1 July 2004 is presented in Figure 3 on page 19.

Figure 2  
Organisational structure of NZTE from 1 July 2003 to 30 June 2004

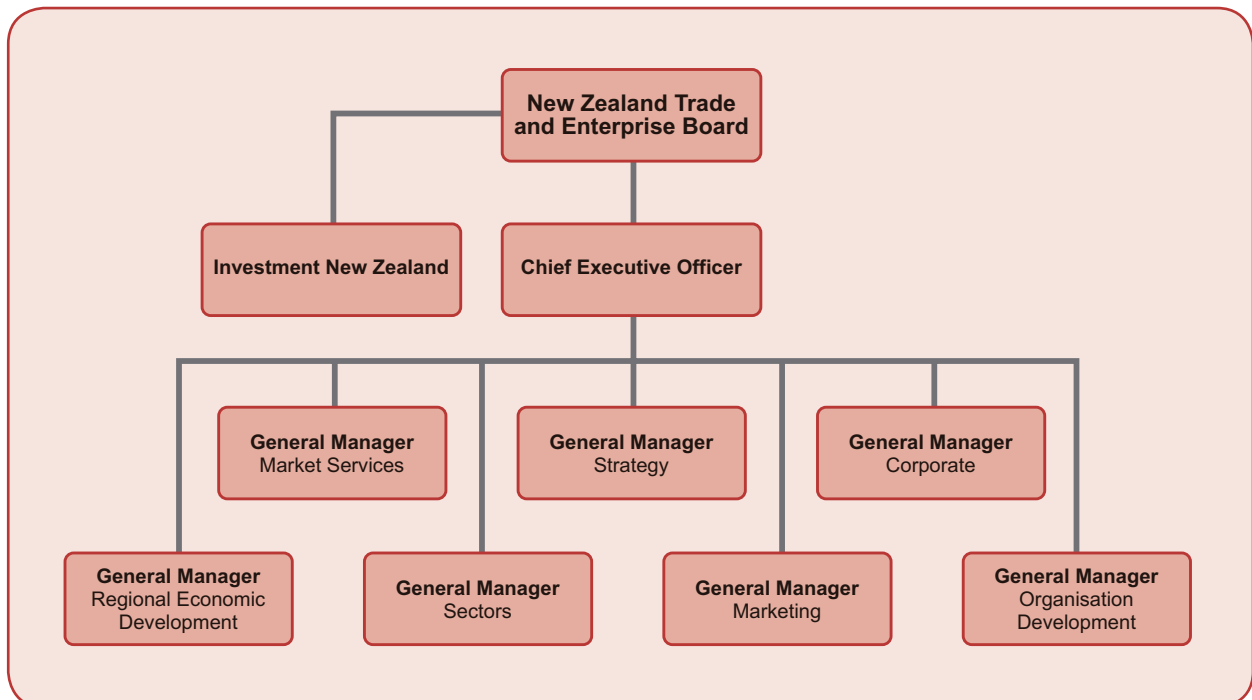
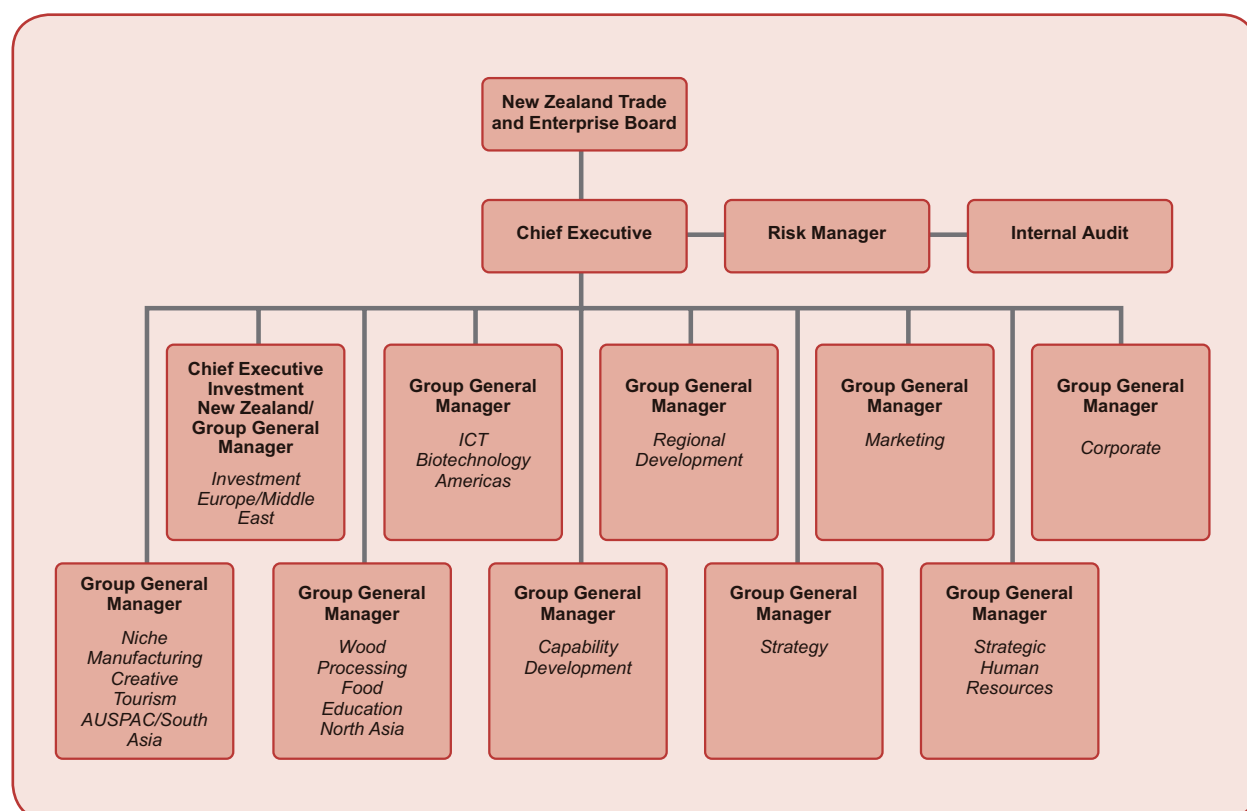


Figure 3  
Organisational structure of NZTE from 1 July 2004



- 1.9 NZTE has needed to manage a significant amount of change as Industry New Zealand and Trade New Zealand had different business processes and systems. For example, during the period of our audit, NZTE was in the process of developing a single Client Management System, designed to be a single repository of client and programme data. NZTE has also established an Organisational Projects and Change team, responsible for ensuring the effectiveness and efficiency of NZTE's business processes.
- 1.10 In 2003-04, NZTE was appropriated \$189.544 million, through *Vote: Economic, Industry and Regional Development*, for:
- services to firms, sectors and regions<sup>4</sup> (\$142.480 million); and
  - grants and awards to firms, sectors and regions (\$47.064 million).
- 1.11 Our audit focused on NZTE's administration of grant programmes, and not on the operations of NZTE as a whole.

4 This includes foundation services (business information and advice, training and capability building), enabling services (sector and regional strategy development and promotion of New Zealand business), and growth services (new business opportunities).

## How did we carry out our audit?

1.12 Our audit examined whether the grant programmes were being administered effectively and efficiently, and in keeping with the policy parameters set by Cabinet.

1.13 We considered all the grant programmes administered by NZTE, and selected certain programmes to examine, ensuring that we had included a broad range of fund types and sizes. The grant programmes selected were:

- the Growth Services Fund;
- the Enterprise Development Fund;
- the Major Events Fund; and
- the Strategic Investment Fund.

1.14 NZTE administers the Enterprise Development Fund as 2 discrete grant programmes – Enterprise Development Grants and Enterprise Network Grants. Our audit examined these 2 programmes separately.

1.15 Figure 4 below shows that the grant programmes we examined made up just under a half of NZTE's total grants appropriation for 2003-04.

*Figure 4  
Grant programmes examined as a proportion of NZTE's  
appropriation for grants in 2003-04*

Grant programme	Amount (\$m)	% of total grant appropriation
Growth Services Fund	9.705	20.6
Enterprise Development Grants	4.000	8.5
Enterprise Network Grants	4.133	8.8
Major Events Fund	1.125	2.4
Strategic Investment Fund	3.975	8.4
<b>Totals</b>	<b>22.938</b>	<b>48.7</b>

## *Audit criteria*

- 1.16 We developed a set of audit criteria that we assessed the performance of NZTE against. We looked at whether:
- robust and appropriate policies and procedures were in place to ensure that grants were approved in accordance with programme policy objectives;
  - these policies and procedures were being complied with;
  - there was appropriate monitoring of grants as they were paid; and
  - there were appropriate frameworks in place to evaluate the grant programmes.
- 1.17 We expected:
- grant programmes to be designed to meet specific, measurable objectives;
  - assessment, approval, and management of grant applications to be robust and to comply with well-defined guidelines and procedures;
  - approved grants to be effectively monitored; and
  - grant programmes to be evaluated to see if expected results were being achieved, and, if not, that programmes were subsequently redesigned accordingly.
- 1.18 We did not look at whether grant programmes were meeting their objectives. We did look at whether NZTE, in conjunction with the Ministry of Economic Development (MED) and the Ministry of Foreign Affairs and Trade (MFAT), has appropriate mechanisms in place to effectively evaluate grant programmes.
- 1.19 We did not examine the performance of grant recipients to see whether they had spent the received grants appropriately. We did examine whether NZTE has systems and processes in place to effectively monitor grant recipients.

## *Selecting the range of grants to be examined*

- 1.20 We selected the number of grants we would examine for each programme. For the Growth Services Fund, Enterprise Development Grants and Enterprise Network Grants, we examined grant applications during the period 1 July 2003 to 31 March 2004. This was appropriate as:
- the merger of Industry New Zealand and Trade New Zealand took effect from 1 July 2003, with only minor changes to these 3 grant programmes;
  - sufficient numbers of grants had been given under these 3 programmes for meaningful samples to be considered; and



- the recommendations from our earlier inquiry<sup>5</sup> should have been implemented for the Business Growth Fund (which was replaced by the Growth Services Fund) from July 2003.

1.21 For the Strategic Investment Fund and the Major Events Fund, we examined grants approved since the inception of those Funds in 2000. This was appropriate, as:

- a smaller number of grants had been made under those 2 Funds; and
- the criteria for those 2 Funds had not changed after the merger of Industry New Zealand and Trade New Zealand.

1.22 In total, we examined 221 out of 498 grant applications – see Figure 5 below. In selecting which grants to examine, we considered:

- the value of individual grants to ensure that we looked at a range of large and small grants within each Fund (because, in some cases, different approval processes applied to large and small grants); and
- the number of grants that had been fully and partially paid, so we could assess the monitoring activity undertaken by NZTE.

*Figure 5  
Number of grant applications examined*

Grant programme	Number of grant applications examined				Total NZTE grants
	Approved	Declined	Cancelled or returned	Total	
Growth Services Fund	36	0	0	36	84*
Enterprise Development Grants	59	5	6	70	142
Enterprise Network Grants	53	0	1	54	108
Major Events Fund	22	10	5	37	129
Strategic Investment Fund	22	1	1	24	35
<b>Totals</b>	<b>192</b>	<b>16</b>	<b>13</b>	<b>221</b>	<b>498</b>

\* This does not include Business Growth Fund and Fast Forward Fund applications approved after 1 July 2003. Both of these Funds were phased out by October 2003.

5 *Industry New Zealand – Business Growth Fund Grant to The Warehouse.*



## *Fieldwork*

- 1.23 We reviewed documents and interviewed staff in Auckland, Tauranga, Wellington, Nelson and Christchurch. We also reviewed documents and interviewed staff from the Industry and Regional Development branch of MED.
- 1.24 For the purpose of assessing the evaluation of grant programmes, we contracted Dr Paul Duignan, an evaluation strategist and Senior Research Fellow with the Centre for Social and Health Outcomes Research and Evaluation at Massey University in Auckland.

## **Structure of our report**

- 1.25 Our report is divided into 7 further parts:
- Part 2 describes our findings across 5 grant programmes within NZTE.
  - Parts 3 to 7 consider each of the 5 grant programmes that we looked at in detail.
  - Part 8 looks at how NZTE, in conjunction with MED and MFAT, has evaluated (or plans to evaluate) the 5 grant programmes examined in our audit.



# FINDINGS ACROSS THE GRANT PROGRAMMES

## Introduction

2.1 As we conducted our audit, some clear themes emerged from our findings for each of the grant programmes. They were:

- variable data collection and reporting practices;
- variable standards of documentation;
- an inconsistent approach to the assessment of risk; and
- inconsistent approaches to monitoring, and the collection of monitoring information.

2.2 NZTE has not yet established a common framework to ensure that, for each grant programme, consideration is given to the key aspects of grants administration. We expected NZTE to have started to consider and document, for each grant programme, how it would collect and store application data, assess applications, assess risk, approve grants, monitor grants, and evaluate the effectiveness of the grant programmes.

## Merger of Industry New Zealand and Trade New Zealand

2.3 We recognise that bringing together the systems and processes of the 2 organisations (Industry New Zealand and Trade New Zealand) is a time-consuming and complex task. However, we still expected NZTE (or its predecessor organisations) to have a high-level framework to ensure that consideration had been given to the key aspects of grants administration for each grant programme, taking account of the individual requirements of each.

## Variation in the approaches taken to administering the grant programmes

- 2.4 There were inconsistencies in the extent of guidance for each grant programme. For example, there was a comprehensive manual for Enterprise Development Grants, which set out the procedures to be followed when recording and assessing applications and paying claims. In contrast, the 3 pages of guidelines for the Strategic Investment Fund merely listed the principles and criteria for the Fund. There were also inconsistencies in the assessment and approvals processes.

### Recommendation 1

We recommend that NZTE review all its grant programmes to ensure that it is administering them consistently. For all grant programmes, this includes ensuring that a sound set of administrative principles and standards are applied to policies and procedures manuals, the assessment of risk, documentation, decision-making processes, and the monitoring of grant recipients.

- 2.5 There was a lack of common understanding as to how the different criteria for each grant programme should be applied. This was particularly evident in the Strategic Investment Fund, where guidance as to how the Cabinet criteria were to be applied had not been developed.

### Recommendation 2

We recommend that NZTE ensure that, where criteria for approving grants are to be applied as part of the decision-making process, there are clear guidelines setting out how those criteria are to be interpreted by decision-makers.

- 2.6 We identified some approved grants where it was unclear whether the Cabinet criteria had been met, and some instances where in our view the Cabinet criteria had clearly not been met. In its output agreement, NZTE agreed to “ensure that all programmes are delivered in accordance with policy agreed in the relevant Cabinet papers”. By awarding grants where the Cabinet criteria have not been met, NZTE is in breach of its output agreement.
- 2.7 For those cases where there has been a breach of the Cabinet criteria, NZTE should take appropriate action to correct the situation. In considering what action it is appropriate to take, NZTE should take into account:
- the substantiveness of any breach;
  - that the application may have been made, and the grant received, in good faith; and

## FINDINGS ACROSS THE GRANT PROGRAMMES

- that, after approval by NZTE, the recipient may have incurred costs based upon an assumption that the application met the required criteria.
- 2.8 NZTE should also review those cases where we were unable to determine if the Cabinet criteria had been met, to determine what action it is appropriate to take.
- 2.9 After the start of our audit, NZTE began to work on a “Business Process Mapping Project”, looking specifically at the grant programmes we examined. One of the aims of the project is to ensure consistency of NZTE processes. Work from this project has included:
- a risk profile for the Strategic Investment Fund; and
  - a new Enterprise Network procedures manual.

### Data collection and reporting practices

- 2.10 We expected there to be comprehensive data on all grants that had been approved, cancelled, declined, or returned, for all grant programmes. Comprehensive data is vital, so that NZTE can accurately analyse:
- who is receiving grants;
  - the size of grants being awarded;
  - the amount paid to grant recipients;
  - how much of NZTE’s appropriation for grants has been spent at any given time in a financial year; and
  - the reasons why grant applications are being declined, cancelled or returned.
- 2.11 The quality of the data supplied to us by NZTE was variable. For some grant programmes, NZTE had difficulty producing reports of basic information, including:
- the grant recipient;
  - the amount of the grant; and
  - the amount paid to date.
- 2.12 The data available for the Enterprise Network programme was particularly poor. NZTE was unable to tell us how many grant recipients were in each Enterprise Network, and had considerable difficulty in telling us how much had been paid to each Enterprise Network to date.

**Recommendation 3**

We recommend that NZTE review and enhance its information management systems. NZTE's information management systems must be able to provide comprehensive and accurate information on all grants.

**Standards of documentation**

- 2.13 Maintaining full and complete files is an important tool in ensuring accountability and transparency for the spending of public funds. It is critical that, where public funds are being awarded to grant recipients, there are clear accountability trails to:
- document all the key points in the assessment and decision-making process; and
  - record all monitoring after the award of a grant.
- 2.14 The standard of the documentation throughout NZTE was variable. For some grant programmes, such as Enterprise Development Grants, the team responsible had maintained a good standard of documentation. A central team made all Growth Services Fund payments, and these files held all the requisite information.
- 2.15 However, the documentation in other programmes was poor. Important documents were missing from many files, such as the application for the grant or the contract signed with the grant recipient. This was particularly evident for Strategic Investment Fund files, which had key documents missing in many cases, and often contained no supporting information for the propositions put forward in an application.
- 2.16 There was also great variation in the standard of documentation held in Client Managers' files, which were often missing important documents (such as credit checks, development plans, and receipts for work undertaken). This was particularly evident for the Growth Services Fund, the Enterprise Network Grants and the Major Events Fund programmes.

**Recommendation 4**

We recommend that NZTE develop guidance about the types of documentation that should be kept on all grant files, and introduce a process to check files for completeness. This should include records of all significant exchanges with grant recipients before grants have been approved, monitoring activities undertaken during the life cycle of the grant, and any post-grant activity.

## Approach to the assessment of risk

**2.17** In our report *Inquiry into Public Funding of Organisations Associated with Donna Awatere Huata MP*, we noted that the assessment of contractual risk as it applied to non-governmental organisations was an integral part of any contracting arrangement. We noted that all entities –

*... need to establish procedures to review the governance and accountability arrangements of organisations that have applied for funding. Such a review should include –*

- checking the legal status of the organisation (including a review of its constituting documents);*
- checking that there is adequate segregation of duties between the governing body and management;*
- assessing the potential for personal benefit to any of the Trustees;*
- assessing the ongoing financial viability of the organisation; and*
- checking whether or not the organisation has applications to or is receiving funding from other government agencies for the same or a similar purpose.<sup>6</sup>*

**2.18** This approach is equally applicable to organisations responsible for the administration of grants. The funding entity must be satisfied with the operational capability and suitability of the organisation applying for the grant. It should then assess the grant applicant's governance and management arrangements for indicators of its ability to:

- adequately use the grant for the purposes for which it has been sought; and
- satisfy accountability requirements under the contract – which in turn flow into the funding entity's own accountability duties.

**2.19** Although there are significant transaction costs in doing this “front-end” work, this risk-based approach has the advantage of enabling the funding entity to concentrate (equally resource-intensive) monitoring and enforcement efforts on grant recipients identified as carrying a higher degree of risk.

**2.20** NZTE does not yet have a consistent approach to the assessment of risk. In the Growth Services Fund, a risk profile is built for each applicant, based on comprehensive guidelines. In contrast, grants are approved under the Strategic Investment Fund without any formal risk profiling of applicants. This is of particular concern, given the size of the grants available under the Strategic Investment Fund. The approach taken to the assessment of risk for each grant programme is discussed further in Parts 3 to 7.

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<sup>6</sup> Pages 9-10.

- 2.21 NZTE has not developed a common approach to the receipt of adverse risk information. For example, we found some grant recipients with adverse credit findings, but we did not see any applications that were ruled out because of such adverse findings.

### Recommendation 5

We recommend that NZTE develop a risk-based approach to assist assessment of grant applicants. Such an approach should also include guidance on how to deal with adverse findings.

## Monitoring, and collecting monitoring information

- 2.22 In our report *Inquiry into Public Funding of Organisations Associated with Donna Awatere Huata MP*, we identified that a funding entity needs to –
- *ensure that it obtains an in-depth breakdown of actual costs of the projects funded and review these costs for reasonableness;*
  - *require production of, and make sure that it receives, annual audited financial statements of the organisations that it is funding, within specified time frames;*
  - *better document the contract monitoring and management undertaken – this includes:*
    - *recording the funded organisation’s compliance with all contractual obligations associated with the funding arrangement;*
    - *documenting the results of site visits and management meetings held with the funded organisation; and*
    - *documenting all significant issues that arise during the contract and how these issues are addressed;*
  - *ensure that final project reports are received on a timely basis; and*
  - *where a contract is to be varied or extended for a future period, review carefully the costs of the project, what has been achieved to date, and what still has to be achieved – before progressing on to the next phase.<sup>7</sup>*
- 2.23 Risk-based monitoring of projects reinforces the need for the parties to a contract to be clear about their expectations and their obligations, when they are dispensing public resources.

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<sup>7</sup> Pages 10-11.



## FINDINGS ACROSS THE GRANT PROGRAMMES

- 2.24 NZTE's monitoring of grant recipients throughout the life cycle of grants was inconsistent. Because of the variable state of the documentation maintained on Client Managers' files, the audit team often saw no evidence of contact being maintained with grant recipients once a grant was approved.
- 2.25 We would expect Client Managers to identify those grant recipients who present a higher risk (based upon an appropriate risk profile during the assessment process), and to focus their efforts on those grant recipients. We saw no such targeting of Client Manager effort.
- 2.26 Similarly, the collection of monitoring information was variable. For Enterprise Development Grants, 20% of each grant was withheld until the required standard final report was returned on the completion of the project. In the Growth Services Fund, the final claim was not paid until the final report was provided.
- 2.27 There were standard completion report forms for Enterprise Networks, although these were not always filled out. At the time of our audit, NZTE did not collect information in a standard format from recipients of grants from the Major Events Fund and the Strategic Investment Fund.
- 2.28 Some reports had been submitted by grant recipients, but the information provided did not follow a standard format and was not readily comparable. The data collected was therefore incomplete. This is likely to adversely affect any future evaluation activities.

**Recommendation 6**

We recommend that NZTE review all its grant programmes to ensure that a considered approach is applied to the collection of monitoring information. The approach should include withholding a percentage of the grants awarded until the grant recipient provides the required monitoring information.



# THE GROWTH SERVICES FUND

## Introduction

- 3.1 Grants are available under the Growth Services Fund (GSF) to support firms with high potential for growth to purchase external advice and expertise, market intelligence, and development services. The GSF replaced Industry New Zealand's Business Growth Fund scheme.
- 3.2 We examined a sample of grants approved between 1 July 2003 and 31 March 2004. This period allowed for the merger of Industry New Zealand and Trade New Zealand from 1 July 2003. We also examined whether our recommendations, from the earlier inquiry into the Business Growth Fund, had been implemented.
- 3.3 In the 2003-04 year, \$9.705 million was available to be distributed under this Fund. Between 1 July 2003 and 31 March 2004, there were 84 approved GSF applications.<sup>8</sup> NZTE does not keep a list of GSF applications that are declined, and enters only approved applications into its system. Figure 6 below sets out a summary of applications approved under the Growth Services Fund for the 9 months ended 31 March 2004.

*Figure 6*  
*Approved applications under the Growth Services Fund*

	Number of applications approved	Total (\$)	
		Approved	Paid
All applications	84	2,311,495	683,548
Applications we examined	36	1,686,430	556,459

<sup>8</sup> This does not include Business Growth Fund and Fast Forward Fund applications fund approved after 1 July 2003. Both of these Funds were phased out by October 2003.

- 3.4 Grants ranged in value from \$1,881 to \$75,000. NZTE was able to provide us with adequate data for all of the GSF grants that were awarded during the period we examined.

## **Cabinet criteria for the award of Growth Services Fund grants**

- 3.5 Grants are available to both firms and groups of firms, to facilitate access to:
- new business opportunities;
  - skills and expertise;
  - innovation and new technologies; and
  - finance.
- 3.6 Applicants must:
- demonstrate how the funding will add value to existing activities;
  - have no more than 100 full-time equivalent employees and/or annual turnover of no more than \$50 million;
  - be operating in a commercial environment, resident in New Zealand, and registered for GST purposes;
  - be financially viable and have a management team with a sound track record;
  - have high growth potential and a demonstrated commitment to growth;
  - demonstrate how the funding will lead to a net economic benefit – i.e. beyond private benefits to the applying firm alone (this may be in terms of, for example, new jobs created or “spill-over” benefits to other firms); and
  - have proposals and business concepts that are consistent with New Zealand’s laws and regulations.
- 3.7 NZTE has defined businesses of “high growth potential” as those with the ability to generate either 20% revenue growth sustainable for 5 years, or revenue growth of \$5 million within 5 years.
- 3.8 GSF grants can be for up to 50% of approved costs on a reimbursement basis. The upper limit for funding is normally \$100,000. NZTE may approve funding of more than \$100,000 in exceptional circumstances.

## *What can Growth Services Fund grants be used for?*

- 3.9** The types of activities that NZTE would expect to fund under the GSF include:
- new business opportunities –
    - feasibility studies – including technical assessments, advice on regulatory requirements, and scientific advice,
    - e-commerce strategy and implementation;
  - skills and expertise –
    - assistance to fund external professional mentors or project managers,
    - assistance with international business exchanges to facilitate transfer of international business skills that are not readily available in New Zealand;
  - innovation and new technologies –
    - development of prototype design and testing,
    - development of intellectual property protection and establishing the project as a commercial venture; and
  - finance –
    - preparation of documentation to obtain finance for business development.
- 3.10** Organisations can access funding for international travel-related activities, where these have been identified as important within the client's growth development plan. Funding is limited to a daily allowance for accommodation, transport and incidental costs, and an airfare allowance for international travel based on NZTE standard flat rates for the region(s) visited.

## What can Growth Services Fund grants not be used for?

3.11 There are a range of costs that are not eligible for funding. These include:

- “business as usual” expenses;
- costs incurred on a project before approval was received from NZTE;
- capital items;
- internal costs of a business;<sup>9</sup>
- expenses of related/associated parties (for example, project activity undertaken by the immediate family or employees of the applicant);
- the costs of applying for funding from other sources; and
- activities more appropriately funded from other agencies.

## Were the Cabinet criteria met?

3.12 We noted 17 approved applications that did not address key criteria explicitly enough. For example, under the eligibility criteria set by Cabinet, applicants are required to demonstrate how funding will lead to a net economic benefit beyond any benefits for the applying firm.

3.13 In our view, 8 of the 17 applications did not make a clear enough case for the expected net economic benefit to New Zealand. In 2 of those cases, it seemed that benefits would be limited only to the applying firm – one of these approved applications explicitly stated that no benefits were expected “beyond benefits to the [applying] firm.”

3.14 Cabinet also requires applicants to demonstrate how the funding will add value to existing activities. NZTE’s guidance regarding this criterion states that –

*The fund is available for additional activities only – not to subsidise the cost of activities that would have occurred without assistance.*

In our view, 10 applications did not address this criterion in enough detail.

3.15 The GSF Advisory Panel appropriately excluded elements of requested funding in one grant application, as the elements did not meet eligibility criteria. An amended application was subsequently approved.

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<sup>9</sup> Up to 15% of total funding can be incurred on internal costs, if it can be demonstrated that the project will have a negative impact on “business as usual” activities that may need to be offset through the re-allocation of internal resources.

- 3.16 In our view, grant applications should address all the key criteria. Where applications did not address the criteria, we expected to see evidence of Client Managers and other NZTE grants staff following these issues through to a satisfactory conclusion.

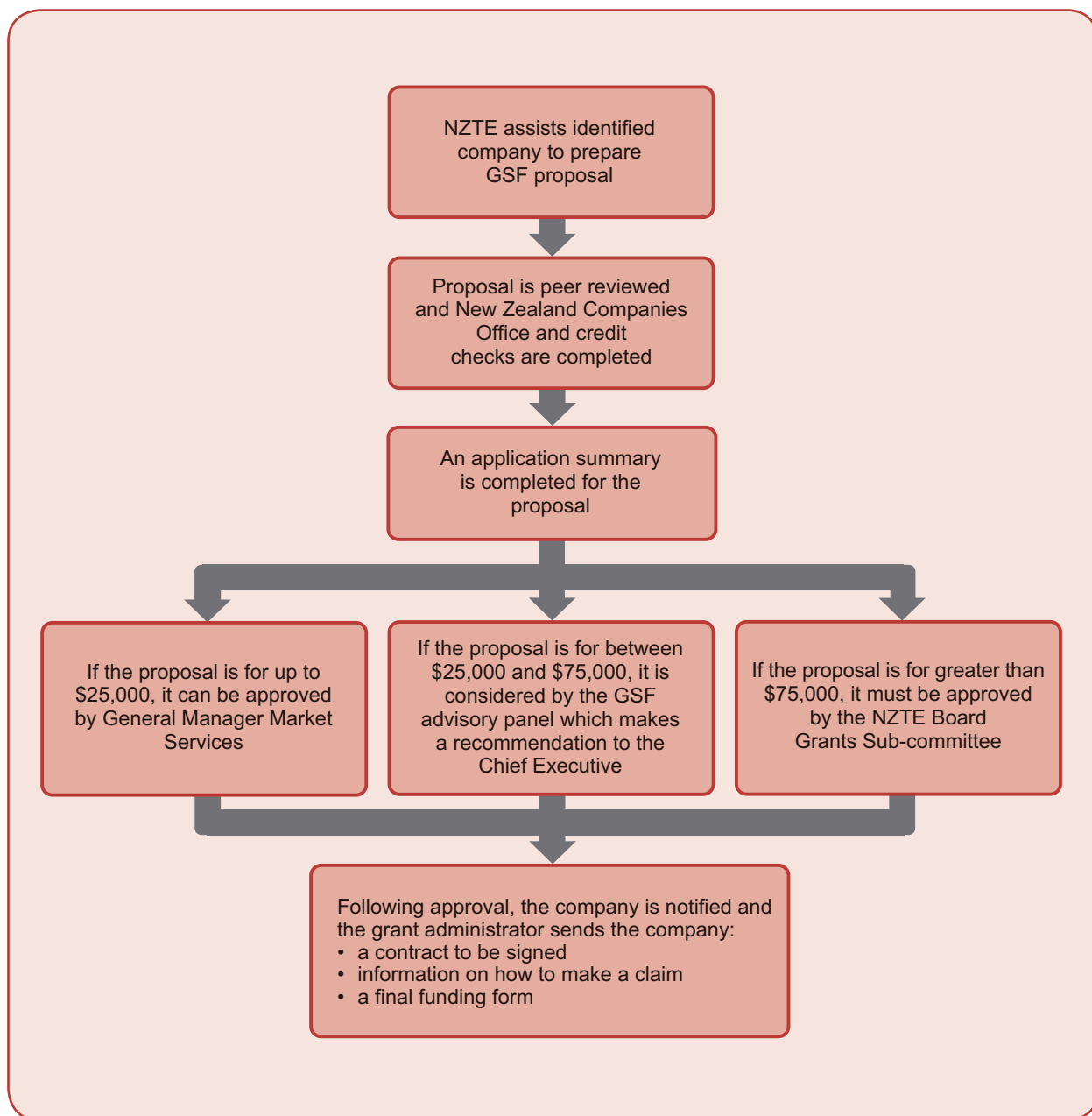
#### **Recommendation 7**

We recommend that NZTE require all Cabinet criteria to be explicitly addressed in Growth Services Fund applications. Decision-makers should ensure that they are satisfied that there is comprehensive documentation ensuring that all criteria are fully addressed.

### **The application process**

- 3.17 NZTE undertakes an initial appraisal of the growth potential of businesses submitting a grant application. This will help NZTE to decide which aspects of the service range are most appropriate for the applicant.
- 3.18 Companies or groups of companies identified as having a high growth potential will undergo a more intensive capability assessment with an NZTE Client Manager. From this assessment, a development plan will be compiled for that company including projects that will assist the company to realise its growth potential. The Client Managers are located throughout the country and take different approaches when compiling documents to support a grant. Most applicants need help from their Client Manager to complete the template documents.
- 3.19 Once a proposal has been prepared, it is considered by the delegated authority appropriate for the size of funding requested:
- if the proposal is for up to \$25,000, a decision can be made by the General Manager Market Services;
  - if the proposal is for \$25,000-75,000, it is considered by the GSF advisory panel, and a recommendation is made to the Chief Executive; and
  - if the proposal is for more than \$75,000, it is considered by the NZTE Board Grants Sub-committee.
- 3.20 Another Client Manager peer reviews a GSF grant application before it is submitted for approval. Sector Team Leaders provide another level of internal review. The Senior Advisor Client Services carries out the final quality assurance check before sign-off is sought from either the General Manager Market Services or the GSF Advisory Panel. The approval process is summarised in Figure 7 on the next page.

Figure 7  
Approval process for Growth Services Fund grants





### *The Growth Services Fund Advisory Panel*

- 3.21 The GSF Advisory Panel comprises 2 senior NZTE managers and one independent expert. The Panel meets monthly in Auckland, Wellington, and Christchurch to consider proposals put forward by Team Directors or Client Managers on behalf of applicant companies.
- 3.22 The Client Manager presents a proposal to the Panel. The Panel members ask questions, and then each member of the Panel completes a company risk matrix. A rating for the company is agreed.
- 3.23 The Panel may recommend approving an application subject to whatever conditions the Panel sees fit. Minutes of the Panel's meetings are sent either to the Chief Executive or the Board Grants Sub-committee for approval, depending upon the amount of funding sought.
- 3.24 Once a GSF grant has been approved, NZTE's Wellington office manages the approval and payment of claims, and the monitoring of progress against the project proposal. This team is responsible for the administration of all claims, ensuring contract compliance, and receipt of the final funding form.

### *Guidelines*

- 3.25 NZTE has produced a set of operating guidelines for the GSF that describe:
- the objective of the GSF;
  - the levels of assistance available;
  - what GSF funding cannot be used for;
  - the application and assessment process; and
  - how the eligibility criteria are to be applied.
- 3.26 Before October 2003, the guidelines presented an overview of the GSF and its criteria, but did not thoroughly address the interpretation of key eligibility criteria. From October 2003, NZTE has had satisfactory operating guidelines for the GSF. These guidelines provide instructions on how to interpret criteria, describe eligible and ineligible costs, and contain examples of typical funding options.

- 3.27 NZTE staff involved with preparing GSF applications have access to a series of templates for presenting:
- background information about the applicant;
  - the financial performance/stability of the applicant;
  - key risks and threats to the project and the applicant; and
  - project scope and planning (including a breakdown of project components).
- 3.28 These templates are designed to ensure that each application addresses eligibility criteria, and also helps to ensure that GSF information is presented consistently within NZTE.

### *Documentation*

- 3.29 We looked at 2 sets of files for each grant. These were:
- the Client Manager's file for the grant; and
  - the payment and contract management file for the grant (held in Wellington).
- 3.30 The Cabinet minute establishing the GSF states that –
- ... eligibility for the Growth Services Fund will flow from a methodical assessment of a client business' capabilities, and the development plan subsequently drawn up for that client.*
- 3.31 The clarity and completeness of documentation in the Client Manager's files varied widely. For example, we expected to find a copy of the development plan on the files for each grant. However, only 8 of the grants we examined had either a copy of the development plan on file, or a reference to an electronic copy of the development plan in NZTE's document management system.
- 3.32 Some files included general information about the client, with a number of different grant applications all stored in the same file. Key documentation relating to grants was missing from some Client Managers' files.
- 3.33 Three applications referred to background checks being carried out, but the required documentation was not included in the file. It was unclear in one GSF application whether or not the required checks had occurred. We saw evidence of background checks being undertaken for all other applications, and no adverse findings were noted.

- 3.34 The GSF guidelines do not include any instructions for Client Managers on collecting and storing grant-related material.
- 3.35 The central payment and contract management files were complete. Each GSF grant had its own file, which contained copies of the key accountability documents.

**Recommendation 8**

We recommend that NZTE develop guidance for Client Managers to clarify the types of documents that should be held on each Growth Services Fund grant file and ensure that these files are checked periodically for completeness.

*NZTE's approach to risk for the Growth Services Fund*

- 3.36 The GSF guidelines require Client Managers to thoroughly assess the financial viability and track record of each applicant. Template documents require the Client Manager to address the key risks and threats to the project and the company that are outside the company's control. The guidelines advocate taking a risk-averse approach if there is any doubt about legal or ethical issues associated with an application.
- 3.37 All applications are reviewed centrally by the General Manager Market Services, which helps to ensure that the guidelines are applied consistently, despite applications being processed by different Client Managers.
- 3.38 In addition to the standard risk profiling undertaken for all applicants by their respective Client Manager, there are higher levels of accountability and sign-off for activities of higher value. All applications for more than \$25,000 are reviewed at the monthly meeting of the GSF Advisory Panel.
- 3.39 Each member of the GSF Advisory Panel must complete a risk matrix template for all applications of more than \$25,000. This requires each member of the Advisory Panel to rate 11 risk factors on a scale from one to 5, and for the panel to agree on a total risk profile score. The template describes the required standards for each risk factor to be scored. A very low total score indicates no need for the grant (because of the low level of risk attached to the company), and a very high score signifies an unacceptable level of risk.

### *Were NZTE's assessment procedures satisfactory?*

- 3.40 NZTE's assessment procedures were satisfactory. We found that applications sent to the GSF Advisory Panel were thoroughly reviewed. We noted 4 applications where the Panel had either chosen to reduce the size of the grant, or had imposed extra accountability conditions on the grant recipient.
- 3.41 The risks attached to an application are identified by separate assessments of the quality of governance arrangements, management experience, and financial performance of the applicant. These assessments are complemented by the requirement for information to be checked with the New Zealand Companies Office and for credit inquiries to be undertaken for applying firms and for individual directors, if necessary.
- 3.42 The GSF Advisory Panel makes a formal assessment of risk through a risk matrix template. For one grant, we noted that the Panel discussed at length the viability of the applying company. NZTE commissioned an internal report in order to resolve the debate, and the eventual approval of the grant was undertaken by means of a special Board paper.
- 3.43 We found that appropriate payment controls, such as requiring original invoices to be submitted, had been exercised over all of the relevant grants that we examined. The Grants Administration team based in Wellington processes all claims against GSF Grants. This helps to ensure consistent control over payments.
- 3.44 We saw examples of claims being put on hold while the Grants Administration team obtained appropriate invoices and further evidence to ensure that the claim met the agreed purpose of the grant.

### **Monitoring of Growth Services Fund grants**

- 3.45 Client Managers collect information about the progress of GSF grants as part of their ongoing engagement with the client. Our review of the grant files showed only some evidence of Client Managers monitoring and recording the progress of a grant. We were told that all communications are to be recorded under NZTE's new Client Management System.

#### **Recommendation 9**

We recommend that NZTE ensure that all significant conversations or meetings with Growth Services Fund grant recipients are recorded throughout the life cycle of the grant.

- 3.46 At the completion of a grant, all applicants are required to complete a template final funding form. This form requires the applicant to detail:
- outcomes achieved as a result of the funding;
  - impact the funding has had on the company's capability;
  - what the funding has enabled the company to do;
  - level of satisfaction with NZTE's service; and
  - any suggestions as to how NZTE could improve its service.
- 3.47 NZTE intends that the information collected will be used for programme management, audit and evaluation purposes. The information sought in template forms is generally high-level. We noted 2 final funding forms that did not include much detail and we did not see evidence of further detail being sought.
- 3.48 In the GSF contract signed by NZTE and the approved applicant, the projected outcomes from the funding are noted. These include projected sales revenue and staff numbers for the next 5 years. The contract requires applicants to report against these projections for the next 5 years, within 60 days of the end of their financial year. The grants in the files we examined had been awarded since 1 July 2003, so no such projections had been collected yet.
- 3.49 Our review of the monitoring of grants was limited, as 12 of the 36 grants we examined had not been claimed against at the time of our audit.
- 3.50 Of the 24 grants claimed against, 22 had the required monitoring documentation. In 2 instances, the final funding form was not in the Grants Administration files. We were told that final funding forms were not sent in for about 20% of grants, and that final GSF grant payments were withheld while the missing reports were followed up.
- 3.51 Under the previous Business Growth Funding Scheme, the Grants Administration team produced summary reports from the accumulated final funding forms. We were told that this exercise would be repeated for the GSF, with results fed back to Client Managers and also made available to NZTE's Strategy and Evaluation team.



# ENTERPRISE DEVELOPMENT GRANTS

## Introduction

- 4.1 Enterprise Development Grants (EDGs) are one type of funding available through the Enterprise Development Fund.<sup>10</sup>
- 4.2 EDGs replaced the former Enterprise Awards Scheme, which was part of a similar Industry New Zealand scheme.
- 4.3 NZTE's objective for EDGs is to assist individual entrepreneurs and companies to gain additional business skills by obtaining external expertise to assist with developing business projects.
- 4.4 We examined a sample of grants approved during the period 1 July 2003 to 31 March 2004, because:
- the merger of Industry New Zealand and Trade New Zealand took effect from 1 July 2003; and
  - a sufficient numbers of grants had been given under this programme for a meaningful sample to be taken.
- 4.5 In the 2003-04 year, NZTE had \$4 million available to be distributed as EDGs. Figure 8 on the next page sets out a summary of the applications.

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<sup>10</sup> Enterprise Network Grants are the other type of funding available through the Enterprise Development Fund. Enterprise Network Grants are discussed in Part 5 of this report.

*Figure 8  
Applications for Enterprise Development Grants in 2003-04*

	Number				Total (\$)	
	Approved	Declined	Returned	Cancelled	Approved	Paid
All applications	116	20	5	1	1,411,225	238,984
Applications we examined	59	5	5	1	1,035,084	215,951

- 4.6 Approved applications ranged in value from \$638 to \$20,000. For the period under review, NZTE was able to provide us with adequate data for all EDGs that had been approved, declined, returned to the client for more information, or cancelled.
- 4.7 This Part discusses only approved applications. Our examination of the files did not reveal any issues with the declined, returned, or cancelled grants.

### **Cabinet and additional NZTE criteria for the award of Enterprise Development Grants**

- 4.8 Criteria set by Cabinet for EDGs require eligible businesses to:
  - be resident in New Zealand for tax purposes;
  - operate, or intend to operate, in a commercial environment;
  - be GST-registered (where required); and
  - be financially viable.
- 4.9 NZTE has stipulated an additional criterion – businesses must have an annual turnover of no more than \$5 million and/or no more than 20 full-time equivalent staff.
- 4.10 Cabinet has also stipulated that entrepreneurs must be:
  - New Zealand citizens or have permanent resident status; and
  - able to show how they are going to finance the project or activity.



### *What can Enterprise Development Grants be used for?*

- 4.11 EDGs provide assistance to entrepreneurs and businesses to:
- engage the services of a business mentor for a defined period;
  - undertake more advanced management and technology-based training;
  - employ specific external advice and expertise in a management area; and
  - undertake international market development activities, including new market investigation, trade fair participation, trade/business missions, business exchanges and visiting buyers.
- 4.12 Grants can be for up to 50% of approved costs, on a reimbursement basis, to a maximum of \$20,000 for each financial year. NZTE has stipulated that a maximum of \$3,000 is available for mentoring and \$3,000 for training costs.

### *What can Enterprise Development Grants not be used for?*

- 4.13 There are a range of costs that are not eligible for funding. These include:
- costs relating to normal business operating expenses, non-developmental costs of the project, business establishment and the purchase of assets;
  - costs incurred internally by the organisation such as salaries, wages, fees, personal expenditure, in-kind expenses or donations;
  - work being undertaken by any of the applicant's employees or immediate family, or the employees or immediate family of any subsidiary, associate or parent companies;
  - costs of anyone with a financial interest in the project or activity such as shareholders;
  - cost of New Zealand permits or consents, and licence, renewal, or registration fees;
  - costs relating to website design and implementation;
  - costs associated with making an application under another government assistance programme;
  - costs relating to establishing the project as a commercial venture, such as printing brochures or advertising; and
  - costs incurred by the applicant before the completed application form was received by NZTE and accepted as complete.

### *Were the Cabinet and additional NZTE criteria met?*

4.14 In the sample of grants we examined, the Cabinet and additional NZTE criteria were met. In our view, NZTE has developed strong procedures and templates to ensure that all criteria are explicitly addressed and met before an application is considered for assessment.

### **The application process**

4.15 There is a standard application form for all EDG applications, which can be downloaded from the NZTE website. Applications must include:

- a clear outline of the project or activity;
- a detailed plan that takes the proposed project or activity from concept to implementation;
- information about the company or individual making the application;
- quotes and terms of reference to substantiate the costs applied for, including the name, address and contact details, company/personal profile of the provider, and the scope and cost of the work to be provided;
- a realistic budget including the potential costs of the whole project; and
- the company's most recent annual financial statements.

4.16 A 3-member EDG Team, located in Wellington, is responsible for processing, assessing, managing, and monitoring all EDG applications.

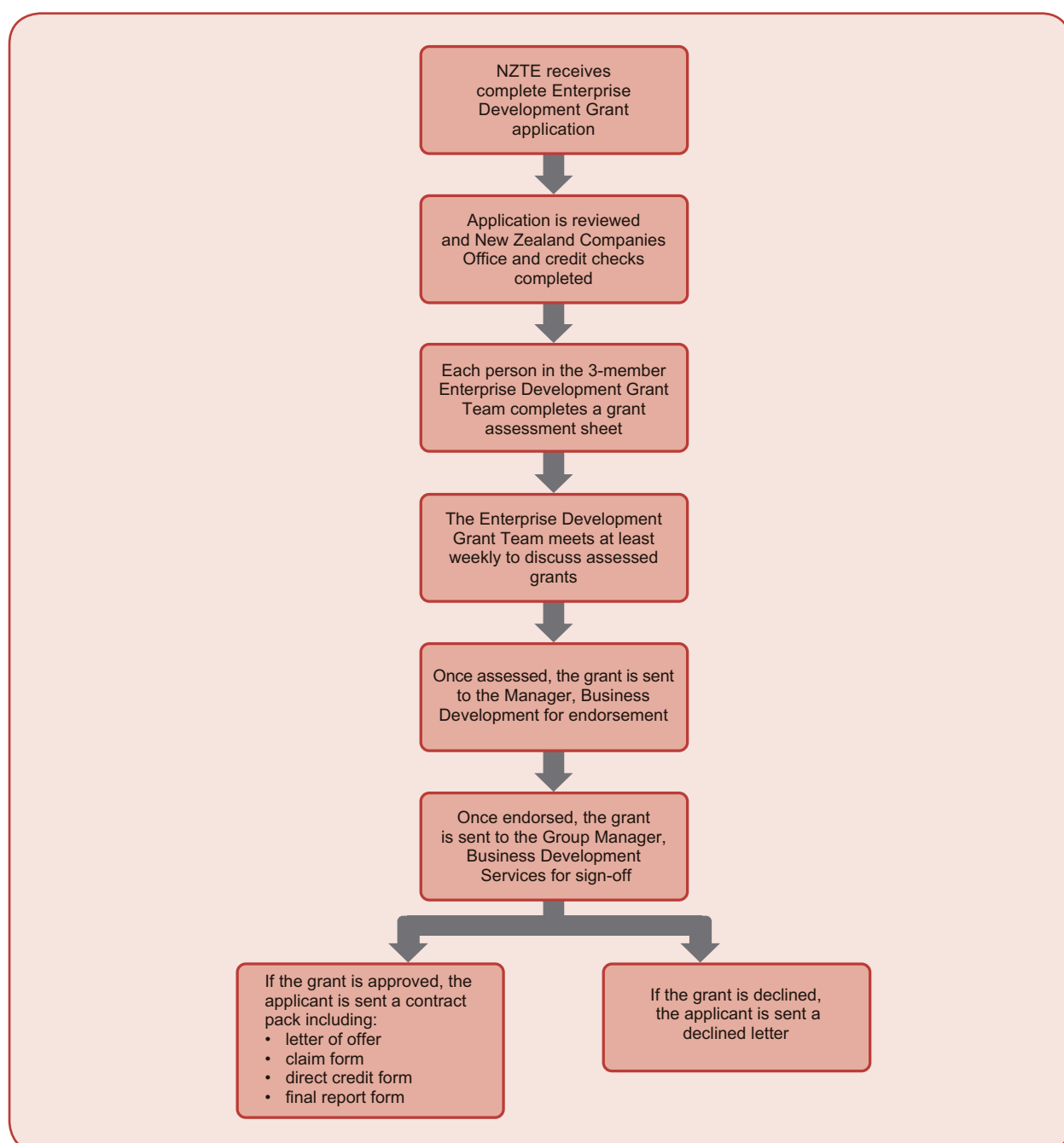
4.17 Once the completed application has been received, the EDG Team members score the application on a standard assessment sheet against the following criteria:

- robustness of the proposal;
- financial and organisational stability;
- ability of the individual/business to implement the project or undertake the activity, and their commitment and drive to undertake the planned work;
- potential for growth within the organisation and the benefit to regional/national economies;
- level of need for government assistance/funding assistance as a catalyst for growth; and
- level of innovation of the product, service, project and activity.

## ENTERPRISE DEVELOPMENT GRANTS

- 4.18 Each criterion is given a score out of 10, which is then multiplied by a percentage to produce a “weighted” score. The result is a final score out of 1000. NZTE has developed guideline notes for assessing proposals against each of the areas noted above. Figure 9 below sets out the approval process for EDGs.

*Figure 9*  
*Approval process for Enterprise Development Grants*



- 4.19 After an application is approved, applicants have 20 working days to accept or decline the offer of a grant. As part of accepting the offer, applicants are required to acknowledge that information about the grant may be passed on to Members of Parliament or the media, and that 20% of the grant will be withheld until the final report has been submitted. Applicants have one year to uplift their grant.
- 4.20 In addition to the EDG Team's joint assessment of each grant application, we noted that internal peer review had been sought for applications that scored close to the benchmark.

### *Guidelines*

- 4.21 NZTE has developed a comprehensive operational procedures manual for the members of the EDG Team. This manual sets out the processes that EDG Team members are expected to follow throughout the application process. The manual includes:
- instructions on the entry and processing of declined, awarded and expired applications into NZTE's client management system;
  - application processing time requirements;
  - background procedures for the New Zealand Companies Office and credit check inquiries;
  - various templates (e.g. for acknowledging applications, declining and approving applications, a document cover sheet for the paper file, and the final report form);
  - how to process claims from applicants; and
  - the processes for contacting successful applicants who have not had contact with, or made a claim to, the EDG Team for 180 days.
- 4.22 Grant guidelines and criteria are also published in the publicly available EDG brochure.
- 4.23 The EDG manual contains an assessment sheet based on the Cabinet criteria that each Team member uses to assess every application. To be approved, applications must meet a total benchmark score that is documented in the manual.
- 4.24 A one-page appendix to the manual provides an overview describing how the criteria are to be scored. However, this advice is brief, and some criteria are not addressed at all. Assessment of key criteria is therefore determined by the skills and experience of the EDG Team members.

**Recommendation 10**

We recommend that NZTE develop more comprehensive guidance for how each Enterprise Development Grant criterion is to be interpreted.

### *Documentation*

- 4.25 Grant files were generally well organised.
- 4.26 Where incomplete applications had been submitted, the EDG Team sought additional information from the applicants. As a result:
- 4 applicants withdrew their applications;
  - 2 applications were declined by the EDG Team;
  - 2 applications were still pending at the time of our review; and
  - 4 applicants provided more information and the application proceeded through to approval.

### *NZTE's approach to risk for Enterprise Development Grants*

- 4.27 Two of the EDG assessment criteria address the financial and organisational stability of an applicant, and the ability and commitment of the applicant to implement their project. These 2 criteria make up 30% of the overall score of an application.
- 4.28 Credit checks and New Zealand Companies Office checks are required for each grant applicant. The EDG manual includes instructions for undertaking these checks.

### *Were NZTE's assessment procedures satisfactory?*

- 4.29 NZTE's assessment procedures were satisfactory. The EDG Team applies the same effort to each grant, regardless of the size of the grant sought. However, from time to time, the team will seek further information on an applicant from NZTE staff who have previously dealt with the applicant.

- 4.30 The assessment approach used for EDG applications helps to ensure consistent application of the guidelines. EDG Team members compare scores for each application, and agree on a collective set of scores for the grant Applications that meet the benchmark are sent to the Manager Business Development Services for review and endorsement. The applications are then sent to the Group Manager Business Development Services for final approval.
- 4.31 Documentation was generally clear for each step of the approval process. However, as there was very little written comment to support and explain the EDG Team's assessment scores, it was difficult for our audit team to follow the decision-making process behind grant approvals.
- 4.32 EDG criteria are contained on the assessment sheet used by the EDG Team. All of the grants that we reviewed had been assessed using this sheet, and there were individual score-sheets from each EDG Team member. However, the EDG manual does not state that an application should be ruled ineligible by a score in any one criterion that is so low that, in effect, the criterion is not met. Instead, an application that achieves a low score for some criteria can still meet the required total by rating highly in other areas.

**Recommendation 11**

We recommend that NZTE set required scores for each Enterprise Development Grant criterion, to ensure that an applicant who receives a low score for one criterion such that, in effect, the criterion is not met, is not eligible for an Enterprise Development Grant.

- 4.33 From our review of grants files, it was difficult to see that the approvals process had been followed. This was because the EDG Team keeps the summary sheets that are sent for approval in a separate file. We cross-checked this approvals file with the individual grants files and found that 12 of the 70 grants we examined did not have the appropriate approvals and delegations.

**Recommendation 12**

We recommend that NZTE ensure that a copy of all Enterprise Development Grant approvals, and the reasons behind any decisions made, are accurately recorded on each grant file, to ensure that the decision-making process is transparent and easy to follow.

## Monitoring of Enterprise Development Grants

- 4.34 The EDG Team performs all monitoring of EDGs. A standard approach is followed for all grant recipients with no apparent reference to the risk assessment activities (such as credit and New Zealand Companies Office checks) that are undertaken as part of the application process.

### Recommendation 13

We recommend that NZTE tailor its monitoring activities for Enterprise Development Grants to take account of the risk profile of the grant recipient.

- 4.35 We found that appropriate payment controls had generally been exercised over the grants that we examined. The EDG Team monitors each grant to ensure that claims align with the qualifying costs identified in the “letter of offer” to the grant recipient. We saw 6 examples of NZTE rejecting ineligible costs that grant recipients had sought to claim.
- 4.36 Applicants are contractually required to complete a final report form at the conclusion of the activity or project. The form requires applicants to:
- indicate whether the project has been completed;
  - indicate whether the project has reached implementation;
  - assess the additional business expected based on the project that has been undertaken; and
  - rate the service provided by NZTE.
- 4.37 The standard terms of EDGs require NZTE to withhold 20% of each grant, until the final report is returned on completion of the project. This 20% had been correctly withheld in all the grants we examined.
- 4.38 Withholding 20% of the grant gives recipients a clear incentive to complete their final reports and, where necessary, to submit any additional information. As a result, there was a corresponding final report for all fully paid grants.





# ENTERPRISE NETWORK GRANTS

## Introduction

- 5.1 Enterprise Network Grants (EN grants) are one type of funding available through the Enterprise Development Fund.<sup>11</sup>
- 5.2 EN grants assist groups or networks of businesses to gain additional business skills, through increased business opportunities and obtaining external expertise in developing network-based business projects.
- 5.3 Export Networks formerly existed as part of Trade New Zealand's operational activities. When the merger with Industry New Zealand formed NZTE, Export Network activity continued largely unchanged because of the requirement to honour forward commitments made under Trade New Zealand's Export Network programme.
- 5.4 Export Networks were renamed Enterprise Networks to recognise the changes associated with coming under the Enterprise Development Fund.
- 5.5 In the 2003-04 year, NZTE had \$4.133 million available to distribute as EN grants. Figure 10 below sets out a summary of applications approved for funding.

*Figure 10*  
*Approved applications for Enterprise Network Grants in 2003-04*

	Approved	Cancelled	Total (\$)	
			Approved	Paid
All applications	107	1	2,339,859	1,022,078
Applications we examined	53	1	1,603,088	817,076

<sup>11</sup> Enterprise Development Grants are the other type of funding available through the Enterprise Development Fund. Enterprise Development Grants are discussed in Part 4 of the report.

**ENTERPRISE NETWORK GRANTS**

- 5.6 The approved applications ranged in value from \$2,500 to \$100,000, with an average grant of \$21,667.
- 5.7 NZTE had some difficulty meeting our request for data on approved, cancelled or declined grants, as the data was held in the computer systems of various administrators. Eventually, NZTE was able to provide us with information about applications that had been approved, and it was able to provide information about one grant that had been cancelled. This Part discusses applications that were approved, as the cancelled grant raised no particular concerns.
- 5.8 NZTE had difficulty telling us how much of each grant had been paid. We were told that this was because each team was responsible for tracking its own progress; there was no consolidated financial system that tracked the progress of EN grants payments.
- 5.9 NZTE was also unable to provide us with data that stated how many participants were involved in each network. This has implications for the risk profiling of EN grant applicants and the ability of NZTE to focus its monitoring efforts accordingly.

**Recommendation 14**

We recommend that NZTE develop comprehensive data collection systems to ensure that it can accurately ascertain at all times: how much funding of Enterprise Network Grants has been approved, how much has been paid, and who are the participants involved in an Enterprise Network.

**Cabinet and additional NZTE criteria for the award of Enterprise Network Grants**

- 5.10 Criteria set by Cabinet for EN grants require applicants to:
- include 3 or more New Zealand organisations co-operating strategically to increase their combined earnings;
  - not have any co-ownership of businesses;
  - demonstrate that the network has the capacity and capability, including financial support, to undertake the activity successfully; and
  - not have more than 25% of its members as public entities or educational institutions – unless it is an education network.

- 5.11 In addition, Enterprise Network members must:
- be registered in New Zealand for tax purposes;
  - retain their own identity within the network and normally carry their share of any costs;
  - be operating in a commercial environment; and
  - be financially viable.
- 5.12 NZTE has stipulated an additional criterion – each business must have no more than 100 full-time equivalent employees and/or annual turnover of no more than \$50 million. Where a business is near the limits of this criterion, the proposal must specifically discuss how funding the business will have a significant “spill-over” benefit to the network as a whole.
- 5.13 Enterprise Networks can apply for assistance and grants of up to \$20,000 for each business for each year.<sup>12</sup> This can be for up to 50% of approved costs on a reimbursement basis.

### *What can Enterprise Network Grants be used for?*

- 5.14 EN grants provide assistance to networks of businesses to:
- undertake international market development activities related to investigating a new market and/or participation at a trade fair;
  - access international experts through offshore or inbound missions;
  - engage business expertise on well-defined projects or concepts that lead toward enhanced capability, profitability and international competitiveness;
  - engage the services of a business mentor up to a maximum NZTE contribution of \$3,000 for each year for each business; and
  - undertake advanced management or technology-based training up to a maximum of \$3,000 for each business for each year.

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<sup>12</sup> The maximum a single business can claim from the combined Enterprise Development Fund is \$20,000 for each financial year.

### *What can Enterprise Network Grants not be used for?*

5.15 Costs that are not eligible for funding include:

- the businesses' contribution to the proposed costs must be met by the businesses themselves rather than by another business-assistance agency;
- costs incurred before NZTE has given "in principle" support to the network;
- domestic travel and meeting costs within New Zealand;
- the cost of meals, entertainment, phone calls, gifts and other incidental expenses, as these costs are all included in daily rate provisions;
- individual business marketing materials;
- the purchase of NZTE services;
- costs relating to normal business operating expenses, non-developmental costs of the project, business establishment and the purchase of assets;
- costs incurred internally by the organisation, such as salaries, wages, fees, personal expenditure, in-kind expenses or donations;
- work being undertaken by any of the applicant's employees or immediate family, or the employees or immediate family of any subsidiary, associate or parent company;
- costs of anyone with a financial interest in the project or activity such as shareholders;
- cost of New Zealand permits or consents and licence, renewal or registration fees;
- costs relating to website design and implementation;
- costs associated with making an application under another government assistance programme; and
- costs relating to establishing the project as a commercial venture.

### *Were the Cabinet and additional NZTE criteria met?*

5.16 It was difficult to assess whether the Cabinet and additional NZTE criteria were met, as the evidence and supporting documentation for making such assessments was poor. For example, the application summary requires Client Managers to state whether there is any co-ownership within the network. In most instances, the Client Manager had simply ticked the appropriate box but there was no supporting evidence on file. Such practice was similar for most of the criteria.

**Recommendation 15**

We recommend that NZTE ensure that all Enterprise Network Grant files contain the required supporting evidence for all statements made in the application summary.

- 5.17 Similarly, although the assessment sheet requires Client Managers to score individual companies and the network for its financial and organisational stability, there was often very little discussion in the plan and proposal of the members involved in the network. In some instances, the names of network members were only listed in the proposal, and there was no discussion of the governance and accountability arrangements for the companies involved in the network.

**Recommendation 16**

We recommend that NZTE ensure that there is appropriate discussion of all network members in the plan and proposal, to ensure that all risks associated with particular companies are identified. This should be included as part of any risk assessment of Enterprise Network Grants awarded.

**Recommendation 17**

We recommend that all Cabinet criteria for Enterprise Network Grants be explicitly addressed in applications and be supported by comprehensive documentation. Decision-makers must be satisfied that all criteria are fully addressed.

- 5.18 From 5 January 2004, one of the NZTE criteria is that members of an Enterprise Network must have no more than 100 full-time equivalent employees and/or annual turnover of no more than \$50 million. This criterion was not addressed in any of the applications for funding under the scheme.
- 5.19 In some of the networks, one or more of the network members explicitly did not meet this criterion. NZTE told us that smaller companies were able to gain advantage from the presence in the network of the larger companies.

- 5.20 We did not see a single proposal where this criterion was identified or noted. We would expect such criteria to be explicitly addressed, with the reasons for variation from the criteria to be clearly addressed in any proposal that was submitted for approval.

**Recommendation 18**

We recommend that, if NZTE decides to develop Enterprise Network Grant criteria additional to the Cabinet criteria, and an application does not comply with the additional criteria, the reasons for non-compliance be clearly stated, so that the decision-makers are aware of the proposed variation from the criteria.

## The application process

- 5.21 Companies interested in forming an Enterprise Network must contact an NZTE Client Manager before submitting an application. There is a standard proposal template that Client Managers provide to the companies involved in the network. These documents are not available on the NZTE website. The proposal must include:

- a clear outline of Enterprise Network objectives and activities;
- a detailed plan of Enterprise Network activities including costs;
- anticipated benefits from participating in the Enterprise Network and predicted increases in revenue;
- information about the businesses/individuals making the application;
- the total revenue and number of full-time equivalent employees of the Enterprise Network members;
- any other funding (received or pending) for the Enterprise Network; and
- any other NZTE or government funding applied for or received.

- 5.22 Client Managers submit the proposal and an application summary to a Team Director for peer review. Once it has been established that the criteria for an EN grant have been met, the proposal is assessed against the following:

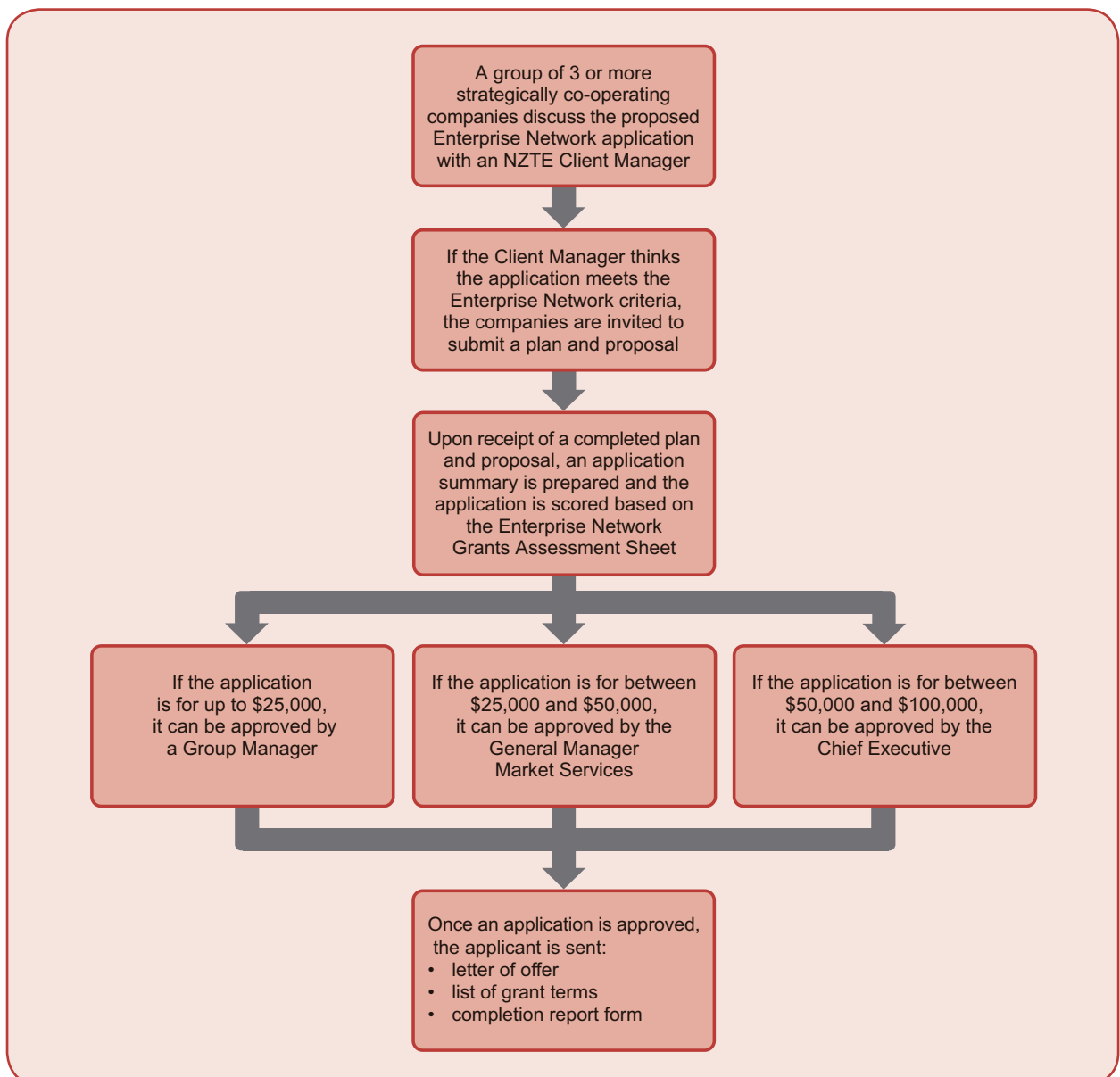
- robustness of the plan;
- financial and organisational stability and the appropriateness of available resources including the stability and maturing of Enterprise Network members;
- ability of the network to undertake the planned work;
- potential for growth within the network and its members;

## ENTERPRISE NETWORK GRANTS

- level of need for government assistance and funding as a catalyst for growth; and
- level of services or the value to add to existing activities or innovation offered by the network.

5.23 Figure 11 below sets out the approval process for EN grants.

*Figure 11*  
*Approval process for Enterprise Network Grants*





## ENTERPRISE NETWORK GRANTS

- 5.24 After an application is approved, the applicant has 20 working days to accept or decline the offer of a grant under the Enterprise Network scheme. When submitting claims, applicants must provide:
- a copy of airline boarding passes to initiate the payment of daily rates and travel costs; and
  - original invoices or receipts.

### *Guidelines*

- 5.25 NZTE has developed an internal Enterprise Network Fact Sheet for Client Managers. This fact sheet sets out the criteria for EN grants, eligible and ineligible costs, application assessment processes, how claims are approved, and client reporting and confidentiality requirements.
- 5.26 At the time of our audit, NZTE had developed a “work in progress” process manual. This manual sets out how Client Managers should manage the application process. As part of its Business Mapping Project, NZTE is in the process of significantly revising its EN grants documentation.

### *Documentation*

- 5.27 To apply for Enterprise Network funding, applicants must complete a standard form, which includes providing information about the network participants, objectives of the network, and activities the network proposes to undertake with the funding.
- 5.28 The information provided in the proposals that were submitted for approval was variable. In some of the proposals, there was little information about the companies involved in the network or the activities they intended to undertake. Proposals regularly did not include quotes for the cost of the purchase of services under the grant.

#### **Recommendation 19**

We recommend that NZTE develop clear guidelines for Client Managers as to what information should be included in an Enterprise Network Grant proposal before an application can be submitted into the assessment process.



- 5.29 We found variable standards of documentation in individual files. Generally, the standard of documentation improved from those applications that were submitted in July 2003 through to those applications submitted in March 2004. NZTE updated the guidelines for Enterprise Networks in October 2003.
- 5.30 However, even taking into account the improvements over time, the overall standard of documentation on the files was inadequate. Credit checks, returned and signed copies of the offer of funding, receipts for work completed, and boarding passes for completed travel were missing from the files in many cases.

**Recommendation 20**

We recommend that NZTE develop clear guidance for Client Managers as to what material should be held on each Enterprise Network Grant file, and check files periodically for completeness.

*NZTE's approach to risk for Enterprise Network Grants*

- 5.31 The application summary and assessment sheet required credit checks to be completed if individual company funding was expected to be greater than \$5,000. Further, from 1 February 2004, Client Managers were also expected to collect the latest financial statements for all Enterprise Network members.
- 5.32 Client Managers assessed the track record of the company or management teams, the financial and organisational stability of the individual companies and the network as a whole, and the ability of the individual, business, or network to implement the project or activity. Such assessments were incorporated into the decision-making documents, but there was no specific risk analysis of companies.
- 5.33 The amount of funding received by a network participant can vary greatly, depending upon the number of participants in the network. NZTE had not developed comprehensive criteria for assessing the risk profile of grant recipients, taking account of the amount of funding individual participants received.

**Recommendation 21**

We recommend that NZTE develop comprehensive guidance for assessing the risk profile of participants in an Enterprise Network, and the network as a whole.

### *Were NZTE's assessment procedures satisfactory?*

- 5.34** NZTE's assessment procedures could be improved. Client Managers were required to fill in, for all Enterprise Network applications, an application summary that included an assessment sheet. This assessment sheet rated the application against a series of categories to determine a score out of 100.
- 5.35** The Client Manager's assessment sheet was then peer reviewed by the Team Director. However, as the files held only the final application that was sent for approval, we saw no documented evidence of such reviews occurring, or applications being amended because of such reviews.

#### **Recommendation 22**

We recommend that NZTE ensure that all Enterprise Network Grant applications are peer reviewed, and that peer review comments are included on the grant file.

- 5.36** In general, the guidelines had been consistently applied. All applications received a score of at least 70/100 in the assessment sheet as required. However, as NZTE was unable to provide us with any applications that had been declined, we were unable to ascertain how approved applications compared to declined applications.
- 5.37** For 2 of the approved grants, the applicant had received a rating of 0/10 for the level of need for government assistance. Zero indicates that the proposed activity is likely to proceed without support and 10 indicates that the proposed activity needs direct support to proceed.

#### **Recommendation 23**

We recommend that NZTE set required scores for each Enterprise Network Grant criterion, to ensure that an applicant who receives a low score for one criterion such that, in effect, the criterion is not met, is not eligible for an Enterprise Network Grant.

- 5.38** The appropriate delegated authority had approved all grants we examined.

## Monitoring of Enterprise Network Grants

- 5.39 For some grants, particularly those where NZTE had a high level of involvement in organising the Enterprise Network, there was evidence of constant interaction between Client Managers and grant recipients. For other grants, there was no evidence on file that the Client Managers monitored the Enterprise Network's progress.

### Recommendation 24

We recommend that NZTE ensure that all significant conversations or meetings with Enterprise Network Grant recipients throughout the life cycle of the grant are recorded.

- 5.40 Appropriate payment controls had not been exercised over EN grants. Claims for payment were checked and approved by the Client Manager responsible for the network, and approved claims were sent to NZTE's finance team in Wellington for payment. However, we noted that the supply of receipts and boarding passes by grant recipients was inconsistent. The level of oversight depended on the individual Client Manager.

### Recommendation 25

We recommend that NZTE ensure that appropriate payment controls are observed in relation to Enterprise Network Grants, to ensure that all claims sent to Wellington for payment contain the requisite information.

- 5.41 Successful Enterprise Network applicants were required to send in a completion report form within 30 days of the completion of the activity. This report required applicants to note the benefits received from the funding, rate the experience they had of Enterprise Network funding, and suggest how NZTE could improve its service to Enterprise Network clients. NZTE may withhold 20% of the grant until the completion report form has been received.
- 5.42 We were concerned to note that the level and quality of post-activity reporting was variable. For grants approved after 1 October 2003 and paid, 12 of the 14 grants had some kind of post-activity report on file. However, these reports ranged from one network that had 17 participants and 17 completion reports on file, through to one member of a network writing a one-page letter identifying some of the successes of the activity.

**Recommendation 26**

We recommend that NZTE consistently apply the requirement that all members of a network provide a completion report, and that 20% of the Enterprise Network Grant be withheld until the completion report has been received.

# THE MAJOR EVENTS FUND

## Introduction

- 6.1 NZTE supports major events through the Major Events Fund in order to provide a platform for targeted industry sectors to market, raise public awareness, and network with customers and other sectors, in support of the Government's interests in economic, regional and industry development. Major events include festivals, sports tournaments, conventions, exhibitions and conferences.
- 6.2 The Major Events Fund was established in 2000, and, before the merger to form NZTE, was administered by Industry New Zealand. For the 2003-04 year, \$1.125 million was allocated to the Major Events Fund. Figure 12 below sets out a yearly breakdown of applications under the Fund.

*Figure 12*  
*Applications to the Major Events Fund since 2000-01*

	Number			Total (\$)	
	Approved	Declined	Cancelled	Approved	Paid
2000-01	6	0	0	552,371	549,371
2001-02	16	14	3	886,487	885,211
2002-03	18	47	21	1,004,654	865,709
1 July 2003 to March 2004*	0	3	1	0	0
<b>Totals</b>	<b>40</b>	<b>64</b>	<b>25</b>	<b>2,443,512</b>	<b>2,300,291</b>

\* As at 31 March 2004, no Major Events Fund applications had been approved for the 2003-04 financial year. This is because it was only in May 2004 that the Major Events Team assessed all applications they had received throughout the financial year to determine which events to support. At that time, the Major Events Team assessed 45 applications and 8 events were supported. We did not examine the grants for those events as they were outside the timeframe of our audit.

## THE MAJOR EVENTS FUND

- 6.3 The approved applications ranged in value from \$2,621 to \$218,000 with an average of \$61,087.84. NZTE was able to provide us with satisfactory data on all events that had been approved, declined, or cancelled, from the start of the Fund in November 2000 through to 31 March 2004.
- 6.4 We examined 22 approved applications, the 5 most recently cancelled grants to find out why they had been cancelled, and the 10 most recently declined applications to find out why they had been declined.
- 6.5 All the applications we examined were approved before NZTE was formed. However, the merger did not result in any changes to the systems and processes used to administer the Major Events Fund.
- 6.6 This Part focuses on the approved applications. No issues were raised by any of the declined or cancelled grants.

### Criteria for the award of Major Events Fund grants

- 6.7 Applicants must provide NZTE with a proposal that states:
- how the sponsorship would support NZTE's objectives, and in particular, NZTE's focus on sector and regional economic development in New Zealand;
  - how the event would directly contribute to helping improve New Zealand businesses' international competitiveness, profitability and/or capability; and
  - how NZTE can take advantage of its sponsorship and/or how the event supports NZTE's Brand New Zealand programme.
- 6.8 The proposal also needs to include information on:
- the background to the event, including the event's track record and return on investment;
  - details of the event;
  - the event organiser and their skills;
  - the target audience for the event;
  - how the event will be promoted;
  - the other business or media partners or other sponsors involved with the event;
  - a properly scoped budget; and
  - what is being sought from NZTE.

- 6.9 If a proposal does not include the necessary information, then NZTE liaises with the event organiser until the required information is provided or the application is withdrawn.

### *What can Major Events Fund grants be used for?*

- 6.10 Under the Cabinet criteria, events that are eligible for support under the Major Events Fund are events that:
- present major untapped commercial opportunities for an industry sector or sectors;
  - create added value in line with the Government's commitment to economic development – that is, lead to net national benefit rather than transferring benefits between regions and/or displacing or crowding out existing economic activity;
  - have major national significance – this can apply to regional events which have some capacity to add value nationally;
  - have significant media value;
  - require a supportive rather than a lead agency role from Government;
  - can be subject to evaluation criteria such as return on investment, measures of direct job creation, sales or exports, and numbers of people attending;
  - are consistent with government strategies, policy objectives and priorities; and
  - are consistent with New Zealand laws and regulations.
- 6.11 NZTE can fund only up to 50% of qualifying projects, up to a maximum of \$250,000 for each project, and can provide only a support rather than a lead agency role.

### *Were the criteria met?*

- 6.12 In the sample of grants we examined, the criteria were met. However, we were concerned by the possible lack of consistency in the application of criteria.



## The application process

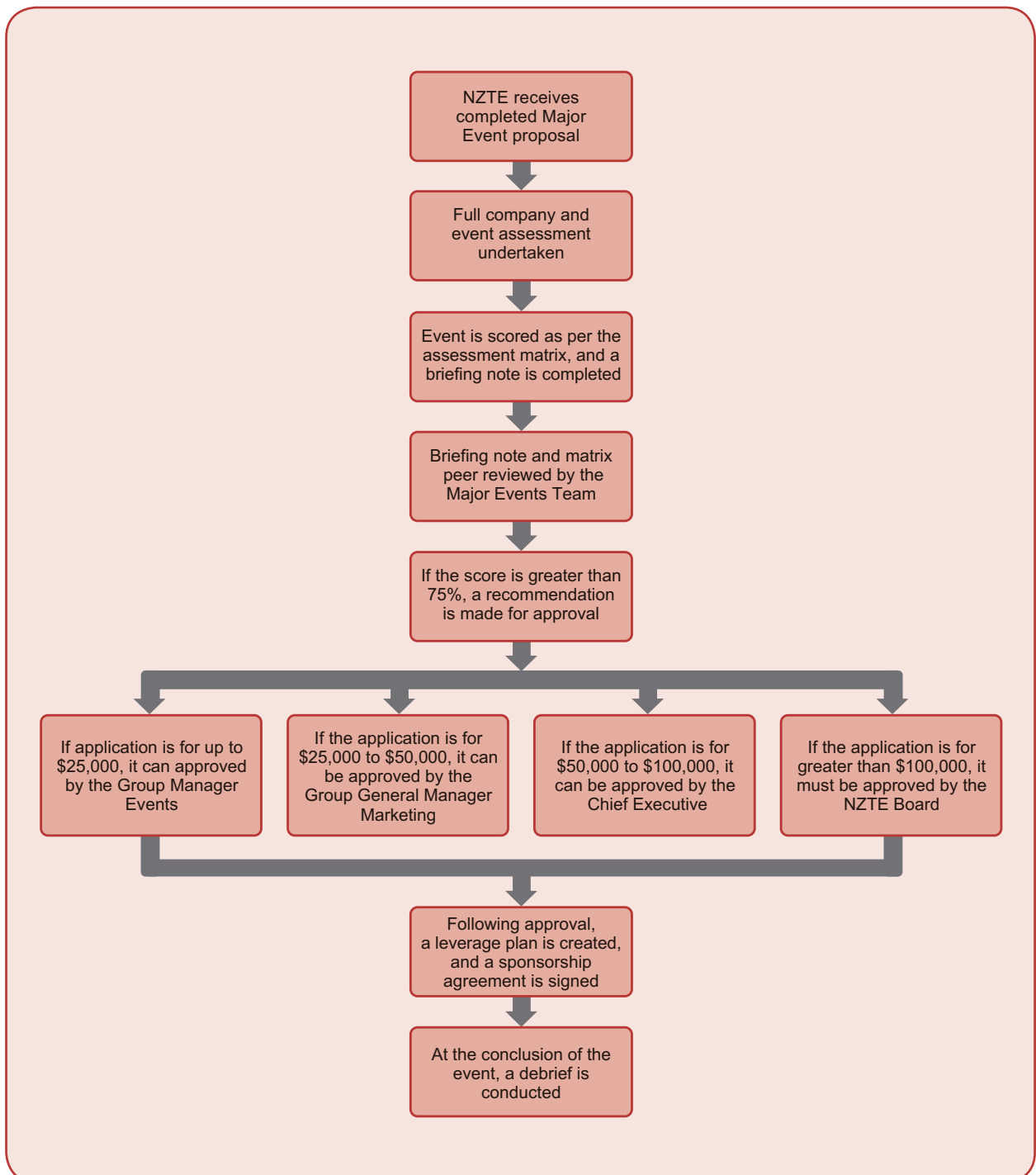
- 6.13 NZTE's Major Events Team is responsible for processing applications to the Major Events Fund. The Team receives proposals in a variety of ways, including through web-based application forms, via NZTE Client Managers, and through the post. After an application is received, the Team undertakes an initial assessment to check whether the applicant has provided all the necessary information.
- 6.14 Once an application has been accepted, an assessment matrix using weighted criteria is completed. Criteria have been divided into 3 categories with "very important" criteria having a much higher weighting than "less important" criteria. Applications receive a score, and events that score 75% or greater are recommended for approval. Figure 13 on the next page sets out the approval process.
- 6.15 After funding is approved, and the grant recipient signs the sponsorship agreement, they can send an invoice to NZTE for the agreed amount. In practice, this can occur one or 2 years in advance of the event, so that promotional activities can take place.

## Guidelines

- 6.16 NZTE has developed an Events Group Procedures Manual that sets out:
- the process for receipt of applications;
  - how applications are to be evaluated;
  - processes for approving or declining applications; and
  - the roles of NZTE staff in the assessment of Major Events Fund applications.
- 6.17 NZTE has also developed an Events Group Process Manual, which contains the assessment matrix to assess all applications for funding. As the Fund is over-subscribed, applications are required to meet a minimum score of 75%.



Figure 13  
Approval process for Major Events Fund Grants



**THE MAJOR EVENTS FUND**

- 6.18 The matrix is based on the Cabinet criteria. However, there is no explanation of how each element of the matrix is to be assessed. For example, an assessment criterion under the matrix is whether the event will “offer significant leveraging opportunities”, for which a score out of 15 must be assigned. However, the guidelines do not set out how the score for each element should be determined.

**Recommendation 27**

We recommend that NZTE develop comprehensive guidance for how each criterion is to be assessed under the Major Events Fund.

*Documentation*

- 6.19 Only 15 out of 22 files for approved applications contained copies of the credit check, briefing notes and assessment matrix, and the signed contract. Of those 15 files, 13 did not have an advantage plan or post event report.
- 6.20 The NZTE Major Events Fund guidelines have not been consistently applied. This is partly because the guidelines have evolved over the life cycle of the Major Events Fund. For example, credit checks were not required in the earlier applications, and successful applicants were not required to sign a contract.
- 6.21 In 2003, the Events Group Manager undertook an internal review of the documentation in all Major Events Fund files. In line with our findings, this review indicated that various pieces of key documentation, such as the briefing notes and assessment matrices, credit checks, or the sponsorship agreements, were missing from some files.
- 6.22 The recently updated Events Group Procedures Manual identifies the documents that should be kept in the paper file. Further, all files are to have an Events Group File Checklist at the front, updated by the Client Manager.

*NZTE’s approach to risk for the Major Events Fund*

- 6.23 Two criteria in the assessment matrix, that make up 12% of the overall score, require NZTE to consider whether the applicant:
- has, or has the potential to develop, sound management and organisational capability; and
  - is able to deliver on estimated outputs, such as numbers of participants and supporters.

- 6.24 The guidelines also require a credit check to be performed on every applicant.
- 6.25 Aside from the 2 criteria noted above and the credit check, there is no requirement for a comprehensive risk profile of the applicant to be completed. This is particularly important, because NZTE can pay applicants up to 2 years in advance of the event occurring (to enable venues to be booked, and contacts with international media to be established).

**Recommendation 28**

We recommend that NZTE develop comprehensive guidance setting out how the risk profile of applicants for grants under the Major Events Fund is determined. This is particularly important given the advance payment of funding.

*Were NZTE's assessment procedures satisfactory?*

- 6.26 NZTE's assessment procedures under the Major Events Fund were satisfactory. Applications were assessed against the criteria set out in the assessment matrix. Once an assessment had taken place, a briefing note was prepared that included the event's background, a copy of the assessment matrix, and a recommendation indicating whether the application should be approved or declined. This was submitted to the appropriate authority for approval. In all the files we examined, the appropriate approval process had been followed.
- 6.27 However, because of the lack of definition around how to interpret and score each element of the assessment matrix, there could be inconsistency in how scores are awarded.

**Recommendation 29**

We recommend that NZTE ensure that the assessment matrix is consistently applied for all applications under the Major Events Fund, and that guidance is developed to ensure consistency in scoring.

- 6.28 Using the assessment matrix, all applications were assessed against the required criteria. However, it is possible for an applicant to receive a score in any one criterion that is so low that, in effect, the criterion is not met. An application that achieves a low score for some criteria can still be approved.

## Monitoring of Major Events Fund grants

- 6.29 The standard sponsorship agreement requires the event organiser to:
- provide NZTE with a copy of any financial statement, report or newsletter produced about the performance of the organiser or the event as soon as possible after the time of its production and before its publication or disclosure to any third parties;
  - attend an initial debriefing session at a time convenient to both parties; and
  - within 30 business days of the conclusion of the event, provide NZTE with a written analysis of the success of the event containing such information as NZTE reasonably requires.
- 6.30 The Major Events Team remains in contact with event organisers throughout the period leading up to the event, and during the event. More recently, advantage plans have been developed for each event, setting out the activities NZTE will undertake to ensure that it can take best advantage of the event.
- 6.31 Appropriate payment controls had been exercised over the grants we examined. Claims for payment were checked and approved by the Major Events Team, and were sent to NZTE's finance team in Wellington for payment. We saw no evidence of grant payments that were incorrectly made.
- 6.32 However, at the time of our audit, NZTE did not require recipients of grants from the Major Events Fund to complete a standard form upon completion of the event. NZTE is preparing guidelines for the event debrief report required of grant recipients.
- 6.33 Of the 22 approved grants we looked at, 3 had some form of post-event report provided by the applicant on file. There were indications on 3 of the other files that a post-event meeting had occurred, but notes from the meeting were on file in only one of those cases.
- 6.34 The 3 reports that were provided were not in a uniform format; nor did they provide standard information about the success of the event or the estimated return on investment.
- 6.35 We saw no evidence that outstanding reports were followed up by the Major Events Team. In our view, some means should be available to compel post-event reporting by grant recipients.

**Recommendation 30**

We recommend that NZTE require all grant recipients to provide reports on the outcome of the Major Event funded. Standard information should be required, to provide appropriate data for monitoring and evaluation of the Major Events Fund.

**Recommendation 31**

We recommend that NZTE determine appropriate sanctions for Major Events Fund grant recipients who do not provide NZTE with the required final report at the conclusion of a major event.



# THE STRATEGIC INVESTMENT FUND

## Introduction

- 7.1 The Strategic Investment Fund (SIF) is administered by Investment New Zealand. Investment New Zealand is a business unit within NZTE and is New Zealand's dedicated investment promotion agency. The SIF is designed to assist in the early stages of investment assessment and planning of a business in New Zealand.
- 7.2 Three types of grants can be given under the SIF:
- **Feasibility study grants** enable potential investors to conduct pre-feasibility and feasibility studies, to quantify substantial investment opportunities in New Zealand.
  - **Guarantees of funding** are provided for significant projects that seek to access funding from other government programmes. Funding from the SIF reduces as the level of funding from other government sources increases.
  - **Cash grants** are available for significant projects, where access to funding from other government programmes is inappropriate or does not fit with the project's requirements.<sup>13</sup>
- 7.3 The objectives of the SIF are to:
- encourage significant investment in new projects;
  - demonstrate the Government's commitment to support major new investments;
  - provide firms making significant investment decisions with an informed opportunity to compare the benefits of investing in New Zealand with other options; and
  - identify any impediments to investments proceeding, and, where appropriate, advise the Government of the need for procedural change.

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<sup>13</sup> Combinations of guarantees of funding and cash grants can also be given.

## THE STRATEGIC INVESTMENT FUND

7.4 The SIF was established in June 2000.<sup>14</sup> For the 2003-04 year, \$3.975 million was allocated to the SIF. On 10 May 2004, the Minister for Industry and Regional Development announced that the SIF was to receive an additional \$4.025 million from 1 July 2004.<sup>15</sup> Figure 14 below sets out a breakdown of applications under the SIF, by year.

Figure 14  
Applications to the Strategic Investment Fund since 2000-01

	Approved			Declined or cancelled grants	Total (\$)	
	Feasibility studies	Cash grants	Guarantees of funding		Approved	Paid
2000-01	2	0	0	0	78,300	78,300
2001-02	9	1*	1	1	1,895,000	900,000
2002-03	13	3	0	1	3,859,375	3,094,150
1 July 2003 to March 2004	3	0	1	0	2,192,188	115,887
<b>Totals</b>	<b>27</b>	<b>4</b>	<b>2</b>	<b>2</b>	<b>8,024,863</b>	<b>4,188,337</b>

\* This was a combination of a cash grant and a guarantee of funding.

7.5 The approved applications ranged in value from \$20,000 to \$2,000,000. The most common grants were feasibility studies for \$50,000 or \$100,000. The cash grants ranged from \$500,000 to \$1,500,000, and the guarantees of funding were for \$500,000 and \$2,000,000.

7.6 NZTE was able to provide us with adequate data about approved applications, including one approved application that had been subsequently cancelled. NZTE does not keep a record of declined applications.<sup>16</sup> This Part discusses the approved applications. No issues were raised by the cancelled grant.

14 When first established, the SIF was called the Major Investment Fund. For the sake of clarity, we refer to it only as the Strategic Investment Fund.

15 The SIF was reviewed as part of the evaluation of the implementation of Investment New Zealand. This is discussed further in Part 8.

16 The one application that was recorded as declined was where the application had been accepted but the applicant no longer wanted to take up the grant.



## Cabinet criteria for the award of Strategic Investment Fund grants

7.7 Cabinet has stipulated that the SIF is available to support the implementation of specific strategic investments that demonstrate significant benefits to New Zealand, in terms of sustainable development (in economic as well as environmental and social sustainability) through a substantial investment involving:

- new direct investment in New Zealand of indicatively \$50 million over 5 years, and/or the creation of 200 new jobs in New Zealand over 5 years;
- development unlikely to occur in New Zealand without the Fund;
- complementing New Zealand's areas of competitive advantage;
- no negative consequences domestically; and
- a high level of clear "spill-over" benefits.

7.8 The operating principles of the SIF are to:

- provide genuine additional benefits and gains, taking into account short-term and long-term direct and indirect costs and benefits, including potential impacts on both environmental and social sustainability, as well as economic impacts;
- refrain from crowding out private sector activity, and accelerate and complement the provision and development of private sector services;
- be based on partial funding, so there is both a partnership between central government and local government, education and research institutions, and the private sector, and commitment from participants;
- complement and co-ordinate with the activities of other government programmes;
- involve an explicit commitment from potential investors to proceed with implementation, subject to the outcome of any feasibility study with assistance contingent on meeting those commitments;
- be consistent with New Zealand's international obligations; and
- be available to worthy domestic and/or foreign potential investments.

### *Were the Cabinet criteria met?*

- 7.9 The SIF guidelines, discussed further below and prepared by Investment New Zealand, did not clearly describe how the Cabinet criteria were to be interpreted. Accordingly, it was difficult to establish whether the Cabinet criteria were met in the grants we examined. For example, one of the Cabinet criteria requires a “high level of clear spill-over” benefits. However, how this was to be assessed was not defined in Investment New Zealand’s SIF guidelines. We identified some approved grants where it was unclear whether the Cabinet criteria had been met, and some instances where in our view the Cabinet criteria had clearly not been met.

#### **Recommendation 32**

We recommend that NZTE develop comprehensive guidance for how each of the Cabinet criteria is to be applied to all applications under the Strategic Investment Fund.

- 7.10 Further, the supporting analysis in proposals or accompanying documents was poor. For example, in a typical feasibility study application, the statement was made that –

*The Company expects the project to create 150 new jobs immediately and a further 75-100 jobs to be created over 3-5 years.*

There was neither supporting documentation nor any analysis of that statement.

- 7.11 Advice given to Ministers contained a number of assertions that were not supported by any evidence or supporting documents. This was particularly evident for the Cabinet criteria relating to new direct investment of \$50 million over 5 years and/or the creation of 200 new jobs over 5 years.

#### **Recommendation 33**

We recommend that NZTE ensure that applications for grants under the Strategic Investment Fund explicitly address all Cabinet criteria, and that all Cabinet criteria are met for every proposal.

#### **Recommendation 34**

We recommend that NZTE ensure that, for all statements made in applications for Strategic Investment Fund grants, the appropriate supporting analysis is recorded, so that such statements can be verified.

## The application process

- 7.12 SIF applications come to Investment New Zealand from a variety of sources, including other parts of NZTE, Ministers, MED, and other government agencies. Firms are usually invited to apply for funding once Investment New Zealand has spent time with the applicant to determine whether the project is likely to meet the required criteria.
- 7.13 Proposals for feasibility studies, guarantees of funding and cash grants are developed by NZTE in consultation with the grant applicant.

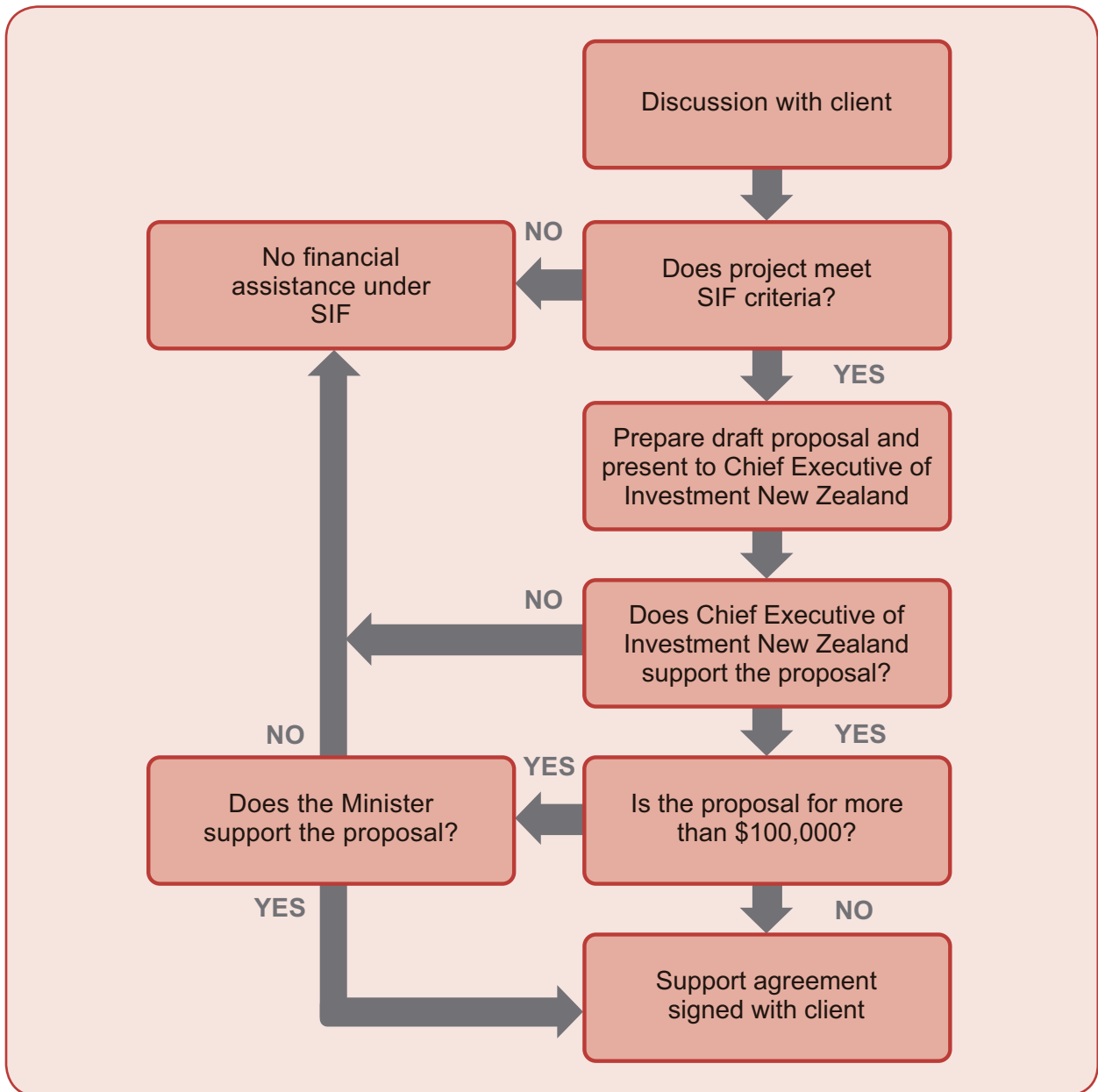
### *Feasibility studies*

- 7.14 To be eligible for a feasibility study grant, the proposal must demonstrate:
- how the study will assess the commercial viability of new private sector investment;
  - if the study proves that the project is commercially viable, how that project will be funded;
  - that the proposed study would be unlikely to proceed without government support;
  - what contributions and support will come from local government, education and research institutions, and the private sector;
  - how any other existing government industry programmes will be involved in the programme;
  - the capability and expertise of the people who will undertake the feasibility study;
  - intended milestones and performance; and
  - how the study will be monitored and evaluated.
- 7.15 Proposals are to be assessed on the basis of the benefits associated with the project proceeding, and on the likely positive impact on industry, regional, and economic development, including:
- the level of capital investment by the applicant;
  - the indirect and direct employment that will be generated;
  - the extent of industry development, including the introduction of new technology, new management practices and the establishment of strategic alliances;
  - potential revenue generation and profitability; and
  - how useful the findings might be for other projects and the wider industry.

THE STRATEGIC INVESTMENT FUND

7.16 Grants are available for 50% of the costs of the study, usually up to a maximum of \$100,000. The Chief Executive of Investment New Zealand approves such feasibility study grants. Ministers can approve feasibility study grants of greater than \$100,000. Figure 15 below sets out the process followed when a feasibility study application is received.

Figure 15  
Approval process for Strategic Investment Fund feasibility study grants

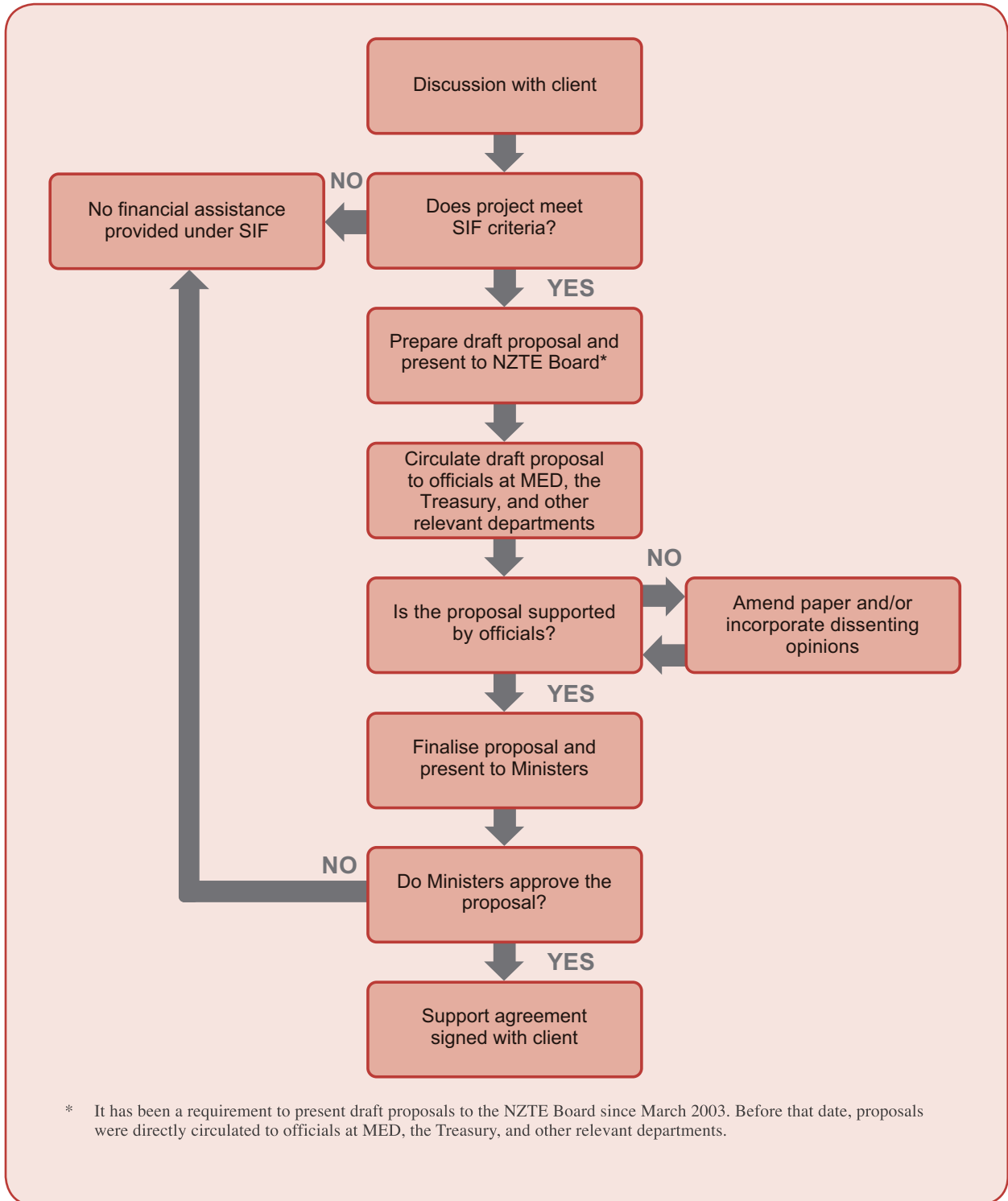


- 7.17 Once an application for a feasibility study has been approved, the applicant can start work on the agreed project. There is no retrospective funding from the SIF for costs incurred before the study was approved. Once the study has been completed, the applicant sends an invoice to the New Zealand Director for Investment New Zealand, who is required to certify the invoice before it is paid.

### *Guarantees of funding and cash grants*

- 7.18 The SIF can provide guarantees of funding for significant projects that seek to access funding from other Government programmes. Commitments of funding from the SIF will be extinguished when funding from other government sources is approved or provided. The SIF can provide cash grants for significant projects where access to funding from other Government programmes is inappropriate or does not fit with the project's requirements.
- 7.19 Guarantees of funding and cash grants are not to exceed \$1 million for each year or an aggregate of \$5 million for each project. All proposals for guarantees of funding and cash grants are to be considered by an inter-agency group co-ordinated by MED, and must be approved by the Minister for Industrial and Regional Development and the Minister of Finance, together with other Ministers whose portfolios are involved.
- 7.20 For both guarantees of funding and cash grants, the process followed by Investment New Zealand is set out in Figure 16 on the next page.

Figure 16  
Approval process for Strategic Investment Fund guarantees of funding and cash grants



- 7.21 Once an application for a guarantee of funding or a cash grant has been approved, a support agreement is signed. The support agreement typically includes:
- a brief description of the project being funded;
  - performance milestones;
  - general obligations and conduct requirements for the grant recipient; and
  - termination arrangements.

### *Guidelines*

- 7.22 Investment New Zealand has 3 pages of guidelines for the SIF (the SIF guidelines), which set out:
- the principles of the SIF;
  - Cabinet criteria for support from the SIF;
  - feasibility study grant criteria and what information needs to be included in feasibility study grant proposals;
  - information and the objectives for guarantees of funding; and
  - information on cash grants.
- 7.23 The SIF guidelines do not describe with sufficient detail how an application is to be processed or assessed; nor how Cabinet criteria are to be applied and how risk is to be assessed. The SIF guidelines are inadequate, particularly given the size and potential value of SIF grants.
- 7.24 After the completion of our audit, NZTE began work on an Investment New Zealand Procedures Manual. This manual should significantly revise the SIF guidelines.

#### **Recommendation 35**

We recommend that NZTE significantly revise the Strategic Investment Fund guidelines to ensure that they are comprehensive, particularly given the size and scale of the Fund. The guidelines should include: how applications are to be processed, assessment procedures, how risk is to be assessed, and how the Cabinet criteria are to be applied.

### *Documentation*

- 7.25 The standard of documentation held on files was poor. In many cases, the files were missing the proposal for funding, invoices, and the support agreement, which is the contract between NZTE and the grant recipient. The audit team had difficulty tracing each grant awarded under the SIF through the approval process.

#### **Recommendation 36**

We recommend that NZTE develop guidance as to what material should be held on each Strategic Investment Fund grant file, and check these files periodically for completeness.

### *NZTE's approach to risk for the Strategic Investment Fund*

- 7.26 In the Cabinet minute establishing the SIF, investors are required to have “a proven track record as a good corporate citizen and in terms of business acumen”. However, in the SIF guidelines, there was no guidance on how the risk profile of an applicant was to be assessed.
- 7.27 The risk profiling of SIF applicants was poor. There were some copies of credit checks on file. But there was little evidence in the files that the organisational structures, financial stability, or governance arrangements of grant recipients had been considered. This is of particular concern, given the size and scale of grants able to be awarded under the SIF.

#### **Recommendation 37**

We recommend that NZTE develop a comprehensive approach to the assessment of risk for Strategic Investment Fund grant applicants. Such an assessment must ensure that decision-makers are fully aware of the risk profile of all grant applicants.

### *Were assessment procedures satisfactory?*

- 7.28 The assessment procedures were not satisfactory. For the feasibility studies, guarantees of funding and cash grants, there was no framework for assessing applications.
- 7.29 For feasibility studies, applications were assessed on a case-by-case basis, with a proposal sent to the Chief Executive of Investment New Zealand for approval. In many of the applications we looked at, criteria were not addressed in proposals.



In one approved application, we noted that the project did not meet all of the criteria for receipt of funding. In other applications, criteria, such as those around job creation requirements, were not met.

**Recommendation 38**

We recommend that NZTE develop a framework by which all Strategic Investment Fund applications are assessed to ensure transparency and consistency in decision-making.

- 7.30 From March 2003, for guarantees of funding and cash grants, applications were presented to the relevant Ministers after receipt of support from the NZTE Board and circulation of proposals to the Treasury, MED, and other relevant officials. For one cash grant from 2002 that we examined, the Treasury and MED were not consulted before the proposal went to the relevant Ministers.
- 7.31 In all cases, the funding was approved in accordance with delegated authority. In one case, the relevant Ministers were asked to agree to a funding application outside the Cabinet criteria, which they did.

**Recommendation 39**

We recommend that NZTE ensure that a thorough review of all Strategic Investment Fund applications is undertaken by decision-makers, and that the reasons behind any decisions are accurately recorded on the file for each grant.

## Monitoring of Strategic Investment Fund grants

- 7.32 After a grant is approved, recipients are required to sign a support agreement with Investment New Zealand, setting out the terms and conditions of the grant. Included within those terms and conditions for feasibility studies are requirements to:
- supply monthly reports to Investment New Zealand on how the feasibility study was progressing, and meet with Investment New Zealand on a regular basis to discuss the feasibility study; and
  - provide copies of the draft and final feasibility study to Investment New Zealand for comment.

**THE STRATEGIC INVESTMENT FUND**

- 7.33 Different terms and conditions have been established for the cash grants and the guarantees of funding. The monitoring arrangements reflected the different terms and conditions. These arrangements ranged from those similar to the requirements for feasibility studies listed above, through to a requirement that the company reach job creation milestones that were audited by independent auditors on an annual basis. The support agreement included a repayment formula if the job creation milestones were not met.
- 7.34 Investment New Zealand did not require grant recipients to complete a standard form upon completion of the feasibility study, and did not keep a record of whether the proposed project had actually been undertaken.

**Recommendation 40**

We recommend that NZTE require all Strategic Investment Fund grant recipients to provide reports on the outcome of the feasibility study, cash grant or guarantee of funding. This should be in a standard format, to provide appropriate data for monitoring and evaluation of the Fund.

- 7.35 We saw little evidence in the files of monitoring activity. In only 4 of the 14 approved feasibility study grants we looked at was there any form of reporting back from the grant recipient on file. For cash grants and guarantees of funding:
- in one case there was the requirement for external auditors to provide NZTE with an independent report as to whether the recipient was reaching job creation milestones on an annual basis – this was occurring;
  - for 2 cases no payments had yet been made to the companies, so there were no progress reports on file; and
  - in 3 cases there were no monitoring reports on file despite significant amounts of money having been paid.

**Recommendation 41**

We recommend that NZTE apply appropriate sanctions for those Strategic Investment Fund grant recipients who do not provide NZTE with the required final report. This could include withholding funds until such a report is provided.

- 7.36 Controls over the payment of SIF grants were inadequate. In some instances, invoices for feasibility studies merely required payment of the total NZTE contribution in a lump sum to the grant recipient. They did not contain information on who had undertaken the work or a breakdown of how their charges had been calculated.

**Recommendation 42**

We recommend that NZTE improve the payment controls applied to grants awarded under the Strategic Investment Fund.



# EVALUATION OF GRANT PROGRAMMES

## Introduction

8.1 Programme evaluation plays a key role in indicating how effective government programmes are. As NZTE identified in its first Strategic Plan, dated July 2003 –

*We need to understand how effectively our activities contribute to the Government's desired policy outcomes. In developing and delivering our services and programmes we will clearly identify the desired outcomes and collect the data and information that will enable us to evaluate the extent to which our programmes and services achieve those outcomes.*

8.2 The quality of the evaluation activity undertaken by NZTE should be assessed in the context of both the level of understanding of evaluation and the capability to undertake it within the New Zealand public service as a whole.

8.3 The programmes examined as part of this audit present particular evaluation difficulties, which include:

- the diversity of organisations receiving the grants;
- the proportionately small amounts of funding that can go to organisations – this is particularly relevant for the Enterprise Development Fund;
- the likelihood that multiple other factors affect the organisations being funded at the same time as they receive a grant; and
- the complexity of the links between the activities of organisations and the final outcomes for the wider sector.

## EVALUATION OF GRANT PROGRAMMES

- 8.4 Further, information about appropriate evaluation models is scarce. A May 2004 report, which looked at lessons for New Zealand from 4 benchmark countries on export development and promotion,<sup>17</sup> found that internationally there was little evidence of systematically applied performance evaluation.
- 8.5 MED, MFAT, and NZTE all play a role in evaluating NZTE's grant programmes. For the purposes of this report, we have looked only at programme evaluation for the grant programmes that were the subject of our audit.

### Roles and responsibilities for grant programme evaluation

- 8.6 MED and MFAT are jointly responsible for monitoring and evaluating NZTE's services. This responsibility primarily sits within MED's Industry and Regional Development Branch. One of the Branch's outputs is to –

*... undertake systematic evaluation of the range of business support and facilitation programmes administered by NZTE, to identify those that are most effective in increasing aggregate business performance; and progressively refocusing effort on these.*

- 8.7 Within the Industry and Regional Development Branch is the Research, Evaluation and Monitoring team (REM). REM is responsible for designing and implementing the Branch's research programme, evaluating the impacts of government programmes, and monitoring the performance of NZTE.
- 8.8 REM's evaluation activities include:
- in-depth programme reviews to assess the efficiency and effectiveness of NZTE's programmes; and
  - an annual review (referred to by REM as a "stocktake") of industry and regional development policy to broadly evaluate programmes.
- 8.9 In undertaking its in-depth reviews, REM works closely with MED's sector development policy team, who are responsible for the design of sector and industry programmes delivered through NZTE.
- 8.10 A joint MED/MFAT monitoring and evaluation unit (MEU) performs the monitoring functions of NZTE. The MEU is located within MED, and includes one permanent MFAT staff member in the unit. The MEU is primarily responsible for providing advice to relevant Ministers on NZTE's accountability framework, including the development of supporting documents such as the Output Plan, Statement of Intent, and the relationship management protocol.

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<sup>17</sup> *Export Development and Promotion: Lessons from Four Benchmark Countries*, The Boston Consultancy Group. The countries were Chile, Denmark, Malaysia, and the United Kingdom.

## NZTE's Strategy and Evaluation Group

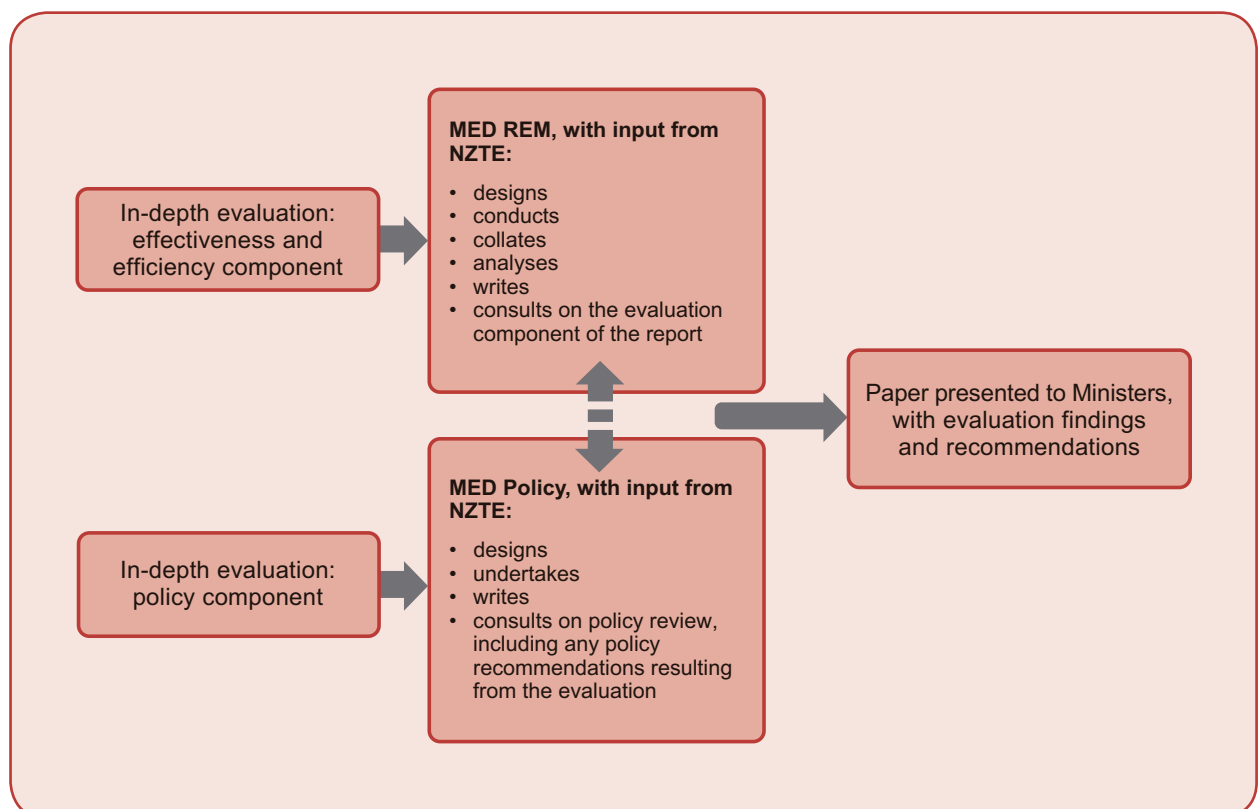
8.11 NZTE has a Strategy and Evaluation Group that is responsible for:

- consultation on the scope of evaluation products;
- co-ordination of information inputs into evaluation products and internal peer review of evaluation findings and conclusions; and
- undertaking components of research activity to support assessment of programme effectiveness and efficiency.

8.12 NZTE's Strategy and Evaluation Group works closely with MED to ensure that there is no duplication of work by the 2 organisations. Figure 17 below sets out the roles and responsibilities for conducting in-depth or programme evaluations.

Figure 17

### In-depth evaluation roles and responsibilities



## Evaluation activity occurring within NZTE

### *Background*

- 8.13 Before the merger of Trade New Zealand and Industry New Zealand on 1 July 2003, different evaluation approaches were applied. MFAT evaluated Trade New Zealand<sup>18</sup> (responsible for the previous version of the Enterprise Networks programme), while MED evaluated Industry New Zealand<sup>19</sup> (responsible for the programmes that became the Growth Services Fund, Enterprise Development Grants, the Major Events Fund, and the Strategic Investment Fund).
- 8.14 Both Trade New Zealand and Industry New Zealand had mechanisms for measuring their performance. Industry New Zealand focused on activity measures, while Trade New Zealand focused on outcome measures.
- 8.15 After the establishment of NZTE, MED and MFAT have undertaken some evaluative activity. This has included an in-depth review of the implementation of Investment New Zealand, MED's annual review (or stocktake), and the development of 2 draft evaluation and research plans.

### *In-depth reviews*

- 8.16 From the Cabinet minutes establishing NZTE, we noted that programme evaluations, or in-depth reviews, were to include an assessment of:
- the adequacy of the programme's delivery and administration;
  - the effectiveness of the programme's various services and whether they met their objectives;
  - whether the services provide value for money; and
  - whether the services were still necessary.
- 8.17 MED has planned a series of in-depth evaluations of the NZTE grant programmes that were subject to our audit. As part of the establishment of NZTE, an in-depth evaluation timetable has been agreed. Figure 18 on the next page sets out the current evaluation timetable.

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18 We note that, for a period, the Treasury was responsible for evaluating Trade New Zealand.

19 MED undertook various pieces of evaluation work while responsible for Industry New Zealand, including a review of the Regional Partnership Programme and a review of the BIZ Investment Ready scheme.



*Figure 18*  
*Evaluation timetable for the grant programmes subject to our audit*

Date	Programme
February 2004	Evaluation of the implementation of Investment New Zealand, including the Strategic Investment Fund
June 2005	Growth Services Fund
June 2005	Enterprise Development Fund
December 2005	Major Events Fund
December 2006	Investment New Zealand, including the Strategic Investment Fund

- 8.18 As at 31 October 2004, MED had completed one in-depth review or programme evaluation for the grant programmes we examined. The *Evaluation of the Implementation of Investment New Zealand* was a review conducted by MFAT and MED in consultation with NZTE and the Treasury. Included within this review was a consideration of Investment New Zealand's implementation of the Strategic Investment Fund.
- 8.19 The review undertaken by MFAT and MED found that it was not evident that the evaluation of grants undertaken by Investment New Zealand met the level of detailed analysis originally anticipated by Cabinet. Further, the review found that the departments would expect to see a more robust analysis being undertaken by Investment New Zealand in support of proposals. For cash grants and guarantees of funding, the review identified a need for Investment New Zealand to consider seeking independent expert advice on the costs and benefits of proposed investment, particularly "spill-over" benefits.
- 8.20 After completion of the review, the Minister for Economic Development and the Minister for Trade Negotiations recommended to Cabinet:
- development of a strategic policy framework for Investment New Zealand; and
  - changes to the criteria and administration of the Strategic Investment Fund.

### *The Ministry of Economic Development's annual review*

- 8.21 MED undertakes an annual review (or stocktake) that provides an assessment of the industry and regional development programme performance to date. It summarises available information on service implementation, delivery and performance, which can then be used to improve delivery or to direct further research or policy development work.

### *Evaluation and research plans*

- 8.22 MED has prepared draft evaluation and research plans for the Enterprise Development Fund and the Growth Services Fund. These draft plans were prepared in May 2004. MED has yet to develop evaluation and research plans for the Strategic Investment Fund or the Major Events Fund, primarily because the policy foundations for these programmes were under review.
- 8.23 Included within the plans are sections on:
- programme objectives and descriptions of the service being delivered;
  - intervention logic models for the programmes; and
  - evaluation objectives and design.

### **Assessment of the evaluation of NZTE's grant programmes**

- 8.24 The different evaluation approaches applied by MED and MFAT to NZTE's predecessor organisations, and the effects of the merger that took place to form NZTE, have affected the timeliness of evaluation activity. A number of evaluation framework elements were developed progressively over the course of programme implementation, such as:
- timelines;
  - relationship agreements;
  - organisational evaluation role descriptions; and
  - evaluation priority setting.

## EVALUATION OF GRANT PROGRAMMES

8.25 The following should have occurred, but did not occur, at the start of the planning process:

- ensuring that monitoring data collected in the grant programmes was consistent with later evaluation efforts; and
- ensuring that high-level risks to the evaluation – particularly institutional change – were appropriately managed.

**Recommendation 43**

We recommend that MED continue to develop an overall approach to the evaluation of NZTE's grant programmes. Such an approach should:

- consider the technical difficulties of evaluating such programmes;
- assess the feasibility and cost of attributing changes in outcomes to the programmes being evaluated;
- outline a strategic approach to evaluating such programmes, taking into account any technical difficulties;
- include discussions with other government agencies that are attempting to evaluate their own grant programmes; and
- explore the use of rigorous formative evaluation in situations where it is hard to measure final outcomes, to assist in developing similar programmes in the future.

**Recommendation 44**

We recommend that MED, MFAT and NZTE clearly communicate to the relevant Ministers and other stakeholders, at the earliest stages in the planning of programmes such as those examined in this report, the potential limits to the information that can be provided through outcome evaluation. This should be done in order to avoid creating unrealistic expectations as to the type of information about effectiveness that can be provided through evaluation programmes of this type.

### *Evaluation planning for each grant programme*

- 8.26 Various evaluation activities have taken place, including some formative evaluation<sup>20</sup> work, such as:
- before the merger, customer surveys by Industry New Zealand and various Trade New Zealand client research and performance measurement reports;
  - considerable developmental evaluation work by NZTE to ensure that programmes were well formed;
  - some collection of monitoring data;
  - the MED annual review (or stocktake);
  - in-depth reviews; and
  - evaluation plans for the EDF and GSF programmes.
- 8.27 However, there was a lack of early evaluation and planning within MED. For example, at the time of our audit, evaluation and research plans had been developed for only 2 of the grant programmes.

#### **Recommendation 45**

We recommend that MED continue to develop comprehensive research and evaluation plans for all grant programmes, consistent with the approach set out in Recommendation 44. These plans should be developed with NZTE to ensure that the proposed work by MED complements work undertaken by NZTE.

### *Timing of evaluation planning*

- 8.28 The timing of evaluation planning is important to ensure that data that can be collected only at a certain point in time is actually collected, so that it can be available for evaluation purposes.
- 8.29 Evaluation planning did not take place early enough. Although it may be possible to retrospectively collect some information using one-off surveys as part of later evaluation design, this can mean that the most effective and efficient opportunity for data capture is missed.

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<sup>20</sup> Formative evaluation uses a disciplined approach to ensure that a programme is optimised for success. It includes checking that needs have been assessed, the literature reviewed, programme objectives and intervention logic fully developed, pre-testing and piloting carried out, the development of monitoring data collection systems, and appropriate plans for later evaluation put in place.

## Data collection

- 8.30 NZTE has identified the need to collect information so that it will be able to evaluate what its engagement with clients has achieved. Such data collection is also very important for MED to be able to effectively conduct in-depth evaluations.

### Recommendation 46

We recommend that NZTE review its data collection mechanisms for all grant programmes. This review should be undertaken in conjunction with MED, to ensure that the data collected will provide MED with the requisite information for its in-depth reviews.

- 8.31 The Growth Services Fund and Enterprise Development Fund have standard completion reports that all grant recipients are required to complete at the conclusion of their funding. Although different for each Fund, these completion reports require grant recipients to provide information on:

- outcomes achieved as a result of the funding;
- what the funding has enabled the grant recipient to do;
- level of satisfaction with NZTE service; and
- any suggestions as to how NZTE could improve its service.

- 8.32 In May 2004, NZTE developed event debrief report guidelines for funding received under the Major Events Fund. The Strategic Investment Fund does not have a standard completion form and does not keep a record of whether proposed feasibility study projects have been undertaken.

### Recommendation 47

We recommend that NZTE use formative evaluation, or equivalent project planning disciplines, to ensure that this type of planning for data collection takes place for all programmes developed in the future.

*Evidence that results from programme evaluations are being fed back into programme design*

- 8.33** MED's in-depth review of *The Evaluation of the Implementation of Investment New Zealand* led MED to put forward a Cabinet paper making various recommendations for changes to the criteria and administration of the Strategic Investment Fund. The annual MED review (or stocktake) also provided an opportunity for timely feedback into programme improvement. The early formative evaluation-type research undertaken by NZTE was fed back into programme improvement.

## Recent publications by the Auditor-General

Other publications issued by the Auditor-General in the past 12 months have been:

- Inquiry into the Ministry of Education's monitoring of scholarships administered by the Māori Education Trust
- Conflicts of Interest – *A Guide to the Local Authorities (Members' Interests) Act 1968 and Non-pecuniary Conflicts of Interest*
- Central Government: Results of the 2002-03 Audits – B.29(04a)
- Local Government: Results of the 2002-03 Audits – B.29(04b)
- Annual Plan 2004-05 – B.28AP(04)
- Local Authorities Working Together
- Good Practice for Managing Public Communications by Local Authorities
- Accident Compensation Corporation: Case Management of Rehabilitation and Compensation
- Māori Land Administration: Client Service Performance of the Māori Land Court Unit and the Māori Trustee
- The State Services Commission: Capability to Recognise and Address Issues for Māori
- Inquiry into Expenses Incurred by Dr Ross Armstrong as Chairperson of Three Public Entities
- Social Security Benefits: Accuracy of Benefit Administration
- Ministry of Health: What Further Progress Has Been Made to Implement the Recommendations of the Cervical Screening Inquiry?

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**New Zealand Trade and Enterprise:  
Administration of grant programmes**

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**Controller and Auditor-General**  
*Tumuaki o te Mana Arotake*

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