Western Australian Auditor General's Report

Royalties for Regions – are benefits being realised?

Report 13: June 2014

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WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

Royalties for Regions – are benefits being realised?

Report 13: June 2014

THE PRESIDENT
LEGISLATIVE COUNCIL

THE SPEAKER
LEGISLATIVE ASSEMBLY

ROYALTIES FOR REGIONS – ARE BENEFITS BEING REALISED?

This report has been prepared for submission to Parliament under the provisions of section 25 of the *Auditor General Act 2006*.

Performance audits are an integral part of the overall audit program. They seek to provide Parliament with assessments of the effectiveness and efficiency of public sector programs and activities, and identify opportunities for improved performance.

The information provided through this approach will, I am sure, assist Parliament in better evaluating agency performance and enhance parliamentary decision-making to the benefit of all Western Australians.

COLIN MURPHY
AUDITOR GENERAL
25 June 2014

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Auditor General's Overview

Royalties for Regions (RfR) was launched by the State Government in December 2008 with the broad aim of building sustainability in the regions by providing infrastructure and services, broadening their economic base and maximising job creation. Responsibility for managing this very important program rests with the Department of Regional Development.

The level of RfR investment has been considerable. At the time of our audit, $4.2 billion had been allocated to over 3 500 projects across regional areas. Where these funds are spent is a matter for government rather than audit. However, with this level of investment, there is understandable expectation on government to demonstrate that the funds have delivered benefits to regional communities in line with the RfR objectives.

In our two previous audits of RfR, we looked at the governance arrangements that were established for allocating the moneys and then whether local governments were spending the project moneys they received in accordance with funding arrangements. In this audit we evaluated 16 RfR projects to determine whether they delivered their intended outcomes.

While it is evident that RfR is delivering infrastructure and services to the regions, the outcomes and benefits these projects intended to deliver was not always clear. This leads me to believe that projects are still being funded for the delivery of a physical product which is not consistent with the Department's own outcomes based approach to funding or with the program's objectives.

Ultimate success of the program will be determined not only on whether individual projects and the program deliver tangible outputs, but also on whether RfR provided long lasting benefits to regional communities.

The audit also left us with some concerns about the extent that projects were funded without long term viability being a key consideration and that project evaluations were focusing on what had been done rather than on whether the desired outcomes were achieved.

While it is apparent that further work is needed before the public can have full confidence in the management of the RfR program, I was pleased to see ongoing improvements to the way the program is being managed. It goes without saying that I will continue to take a keen interest in the RfR program.

Executive Summary

Overview

Royalties for Regions (RfR) is an ongoing State Government initiative that involves significant allocations of public money. Launched in December 2008 the program has been funding projects for over five years and at the time of audit had allocated $4.2 billion to over 3 500 projects across the State. The high level objectives of the *Royalties for Regions Act 2009* (the Act) are:

- to provide infrastructure and services in the regions
- to develop and broaden the economic base of the regions
- to maximise job creation and improve career opportunities in the regions.

This is our third audit of RfR. Our first audit in 2009 was a preliminary review of the RfR high level controls and governance arrangements. Our second audit in 2010 examined Local Government spending through the Country Local Government Fund component of the program.

Our 2009 audit found that implementation of appropriate governance frameworks had lagged behind project funding disbursements. At that time we identified that the then Department of Regional Development and Lands, now the Department of Regional Development (the Department), was developing an evaluation framework. The framework was implemented by the Department in 2011 and has been embedded into its business case, financial agreement and reporting templates.

The framework should provide the Department with a structured outcomes based approach to funding and evaluating RfR projects. It should support decision making by clearly demonstrating how projects align with the three legislative objectives, as well as six lower level objectives the Department established to help funding decisions and to focus projects on achieving clearly identified benefits.

Success of the RfR program will be determined by whether it provides long lasting impacts to regional communities, and not only on whether it delivered specific outputs.

The objective of our audit was to determine if RfR projects are delivering their intended benefits to regional Western Australia. Consistent with the Department's framework, our audit focused on whether projects identify outcomes and benefits, and if the Department evaluates whether projects are meeting the six objectives and delivering their intended benefits.

Conclusion

The RfR program is providing substantial infrastructure and service projects to regional communities. The Department's focus in administering the program is on funding projects for the delivery of tangible outputs, and ensuring money is spent where it was approved to be spent. What long term benefits these projects were expected to deliver and how projects are actually contributing towards achieving the RfR objectives is essentially still unknown. This is primarily because the outcomes based funding and evaluation framework that was implemented by the Department in mid-2011 has not been consistently applied.

Since 2009, the government has indicated that outcomes from RfR projects would be measured, or be capable of being measured. However, the Department's selective approach to evaluating achievement of the RfR objectives, while consistent with the framework, has resulted in few evaluations relative to the overall size of the program. While these evaluations may have shown what outputs and outcomes were delivered by projects they did not show if projects had delivered their intended outcomes.

Key Findings

- Cabinet has a say in how every RfR dollar is spent. The Department as administrator for the program is responsible for ensuring that projects submitted to Cabinet have undergone a rigorous assessment. This assessment should ensure projects meet the RfR objectives and will provide communities with long term benefits, beyond delivery of tangible outputs. However, we found examples of projects submitted for approval that did not clearly demonstrate the outcomes that would be delivered or the sustainability of the projects in the longer term.
- Although the Department has been developing indicators for the RfR objectives since 2009, we found they had still not been implemented. These indicators were intended to be used to benchmark and measure the effect that project funding has in achieving the six RfR objectives. These indicators, if implemented, could support the Department in measuring progress towards those objectives.
- Prior to 1 July 2013, the Department did not require projects to demonstrate in their business case how they would meet ongoing operational and maintenance costs. We identified 140 projects worth $729.2 million that were signed with non-State Government entities before 1 July 2013 that were not required to demonstrate long term sustainability.
- The Department has an outcomes based approach to evaluating how projects achieve the six objectives. However, we found that not all projects are clearly aligned with one or more of the objectives. As well, only half of the project business cases that we reviewed complied with the Department's requirement to include specific and measurable outcomes. The absence of this information makes it harder to assess whether a proposed project is worth funding.
- The Department evaluates only a selection of projects based on predetermined criteria. While this is consistent with their Evaluation Framework, at the time of our audit the Department had only completed seven evaluations which included 12 case studies. However, we found these only reported what was delivered, not if they met their intended outcomes.
- The Department does not have a monitoring system to oversee project progress and the overall RfR program. With over 3 500 projects approved to date, the Department's capacity to monitor and identify potential issues, risks and successes in the achievement of the RfR objectives is restricted.

Recommendations

The Department should:

- review the appropriateness of its outcomes based Evaluation Framework. Specifically, whether some projects are best funded and later evaluated solely against the delivery of outputs
- consistently apply its Evaluation Framework and ensure:
  - all project business cases clearly identify specific and measurable outcome (or if necessary output) measures
  - all business cases progressed by the Department to Cabinet for approval demonstrate alignment to the RfR objectives
  - it has a logical basis for selecting projects for evaluation

The Department should (cont):

- implement high level indicators for the six RfR objectives. These indicators should be used by the Department to align project outcomes to the RfR objectives as part of its funding recommendations to Cabinet, and to measure progress towards achieving the RfR objectives
- ensure that all project business cases address project sustainability
- implement a monitoring system that provides oversight of project progress and the program.

Agency Response

Department of Regional Development

The Department of Regional Development (DRD) welcomes the findings and recommendations of the Auditor General's report and acknowledges the work undertaken by his staff. The findings and recommendations detailed are pertinent to DRD's continuous improvement process for administering the Royalties for Regions program. As acknowledged by the Auditor General, in just over five years, Royalties for Regions has funded over 3 500 projects across regional Western Australia.

These projects are delivering key infrastructure and services as intended by the Royalties for Regions. Given the significant number of projects and to avoid duplication, DRD requires funding recipients to measure outcomes at the project level. To properly measure the outcomes of Royalties for Regions at the program level, DRD undertakes significant evaluations. Evaluations are already being undertaken in key areas of health, community infrastructure, housing, education and support for aboriginal communities.

In regard to this current report, DRD has already responded to the Auditor General's recommendations and has since instigated the auditing of annual performance measures reported by funding recipients. This will improve the quality of reported outcome measures and support the achievement of intended outcomes.

However, the measurement of long-term regional outcomes will take time to be ascertained and evaluated. DRD has already put in place an Evaluation Framework and a Governance Model to support this process, which was previously endorsed in an audit by the Auditor General. The Evaluation Framework has been nationally recognized and is currently being considered for adoption by other government agencies including the Department of Treasury for use across all government agency expenditure programs.

The Royalties for Regions program is unique in that it is the only State Government program that ensures projects/programs are approved by State Cabinet twice, once through the annual budget process and also individually via a formal submission and business case. No other area of government follows this rigorous assessment and approval process.

DRD publishes annually on its website (www.drd.wa.gov.au) a Royalties for Regions Progress Report that provides extensive examples, supported by on-the-ground case studies and testimonials, of the positive impacts that the Royalties for Regions program is having on Regional WA.

What Did We Do?

Our objective was to determine if RfR projects are delivering their intended benefits to regional Western Australia.

Specifically, we asked:

- Do RfR projects identify expected outcomes and benefits?
- Does the Department assess if funded projects are meeting the RfR objectives and are delivering on their intended benefit?

We examined 16 projects, five projects funded through the Regional Community Service Fund (RCSF), and 11 through the Regional Infrastructure and Headworks Fund (RIHF). An overview of the categories of projects examined is shown below:

Project categories	$ millions
Infrastructure	**132**
Community Development	62
Services	10
Housing	39
Education	21
Non Infrastructure	**13**
Education	8
Marketing	5

Source: The Department and OAG

Table 1: Sample project categories as determined by OAG

More information on the projects examined is provided in Appendix 1.

In conducting the audit we:

- interviewed key staff to identify agency policies and procedures for administering RfR
- spoke to agency staff to understand how they applied agency policies and procedures on a day-to-day basis
- examined agency documents
- tested a sample of RfR projects to determine compliance with agency policies and procedures.

We met with the Chair of the Western Australian Regional Development Trust (the Trust) and the Acting Chair of the Regional Development Council.

We conducted one site visit to meet with representatives from the project. We also spoke to representatives from two other projects in our sample.

We did not review:

- project financial acquittals, which are certified by agency auditors
- projects funded through the Country Local Government Fund (CLGF) or the Regional Development Fund
- decisions to fund one project over another
- the rationale for Cabinet's project approval
- the timeliness and accuracy of project reporting.

The audit was conducted in accordance with Australian Auditing and Assurance Standards.

Background

Royalties for Regions Framework

The RfR program was secured in legislation after the 2008 Western Australian State election. Between 2008-09 and 2013-14 the RfR Fund has allocated $4.2 billion to over 3 500 projects across regional Western Australia. The Government has committed $4 billion in ongoing funding for RfR to 2017-18.

The level of government investment is considerable. It is therefore important that government can demonstrate that funds are spent on projects that meet the RfR objectives and benefit regional communities.

The *Royalties for Regions Act 2009* (the Act) was proclaimed on 27 March 2010. The Act requires that 25 per cent of forecast mining and onshore petroleum royalty revenue each year be set aside for economic, business and social development in regional Western Australia.

The Act established the Trust and the Treasurer's RfR Fund (the Fund). The Trust provides advice and recommendations to the Minister for Regional Development on the allocation of money from the Fund and the allocation of money between the Fund's subsidiary accounts.

The amount of money that can be held in the Fund at any time is capped at $1 billion. Spending will also be capped at $1 billion per year as a result of changes announced in the 2014 State Budget.

The Fund allocates money to four subsidiary accounts to be used for three high level purposes:

- to provide infrastructure and services in the regions
- to develop and broaden the economic base of the regions
- to maximise job creation and improve career opportunities in the regions.

The focus of these subsidiary accounts is shown in Figure 1.

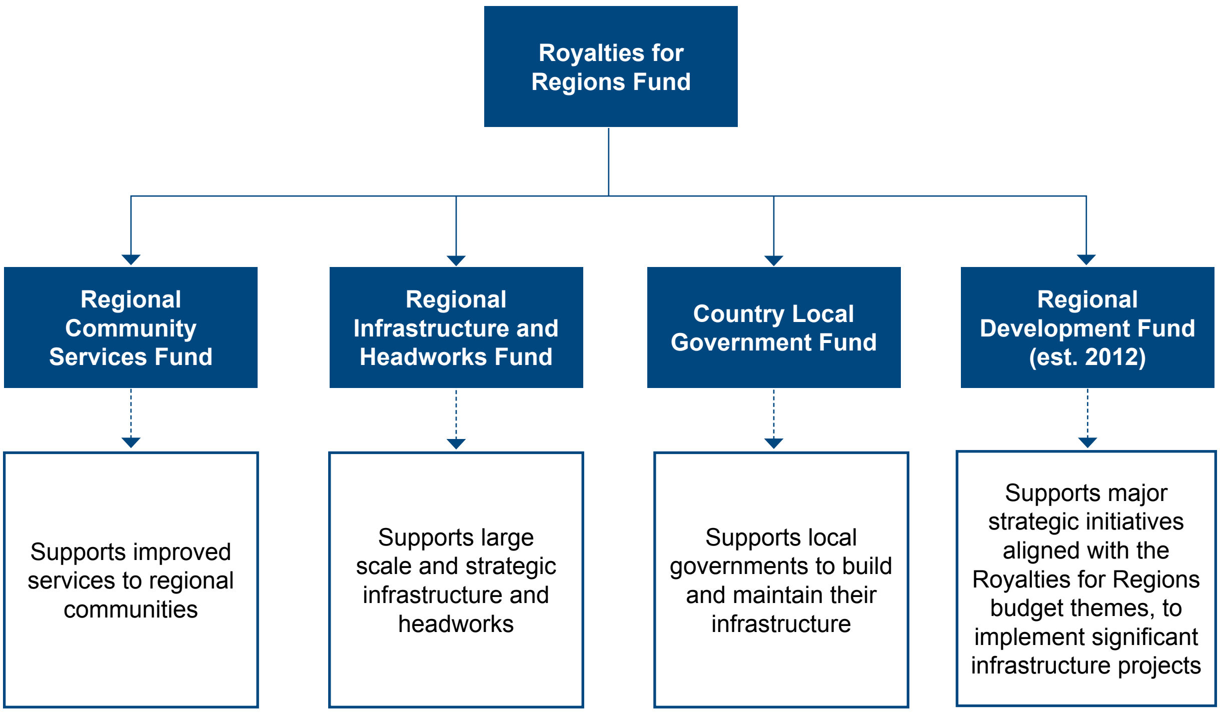


Figure 1: Subsidiary accounts of the RfR Fund

The Department of Regional Development (the Department) has established six program objectives to support high level funding:

- Building capacity in regional communities
- Retaining benefits in regional communities
- Improving services in regional communities
- Attaining sustainability
- Expanding opportunity
- Growing prosperity.

Our 2009 audit found that while the Department had made progress in developing an appropriate governance framework for the RfR program, it had not been implemented. It was thought that when the framework was fully implemented the Department would have appropriate processes for monitoring and evaluating the program.

These outcomes based processes were introduced by the Department in its Evaluation Framework (Framework) in mid-2011. The Framework 'outlines a generic approach that can be applied at all levels of RfR funding'.

The purpose of the Framework is to report on the outputs, outcomes and impacts of projects and programs funded through RfR. The Framework states that it should allow the Department to answer the following questions:

- What did we do?
- How well did we do it?
- What did we achieve?

Royalties for Regions allocations and projects

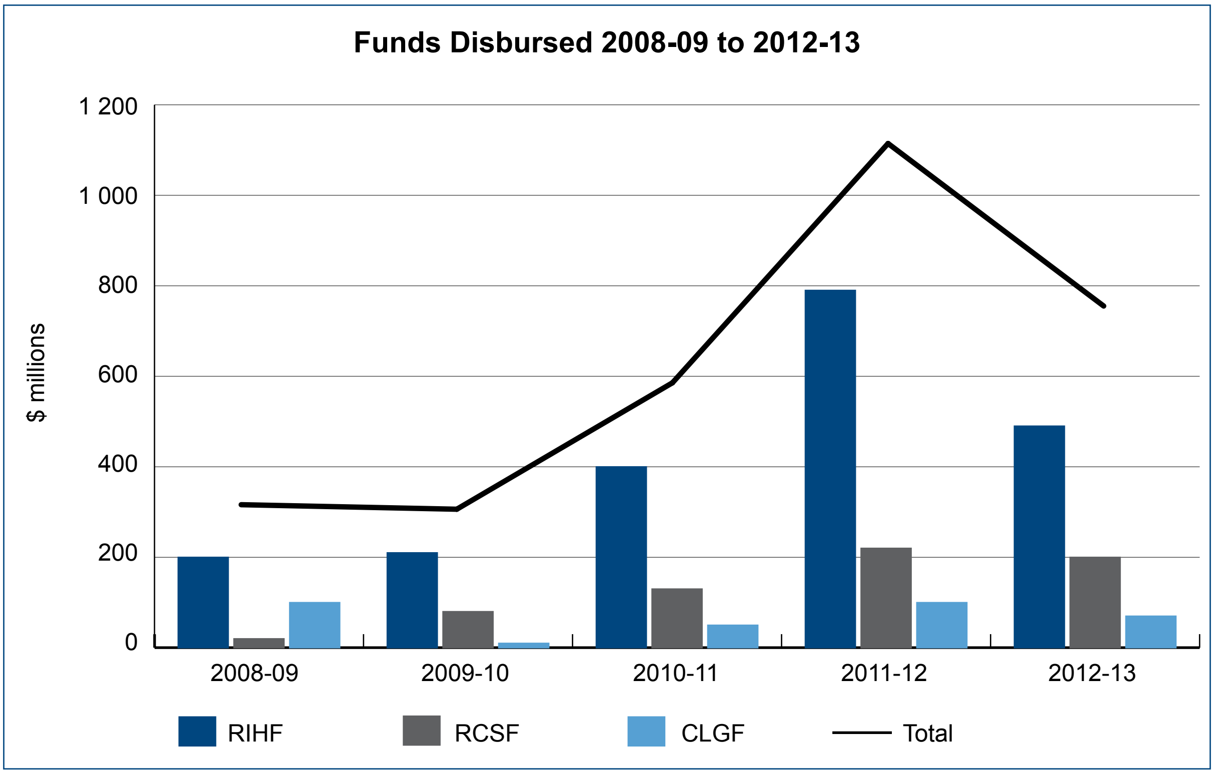
At the time of our audit over 3 500 projects have been approved across the four subsidiary accounts. The Department maintains a register of information on projects after they have received Cabinet approval. The register listed 382 high level projects at the time of our audit.

Fund	Projects
Country Local Government Fund (CLGF)	31
Regional Community Service Fund (RCSF)	112
Regional Infrastructure and Headworks Fund (RIHF)	239
Regional Development Fund (RDF)[1]	0
Total	**382**

Source: The Department

Table 2: Projects at October 2013

[1] Regional Development Fund, established in May 2012



Source: The Department and OAG

Figure 2: Funds disbursed 2008-09 to 2012-13

The State is made up of nine regions, each supported by a Regional Development Commission (RDC). Their primary purpose is to coordinate and promote economic development in the regions.

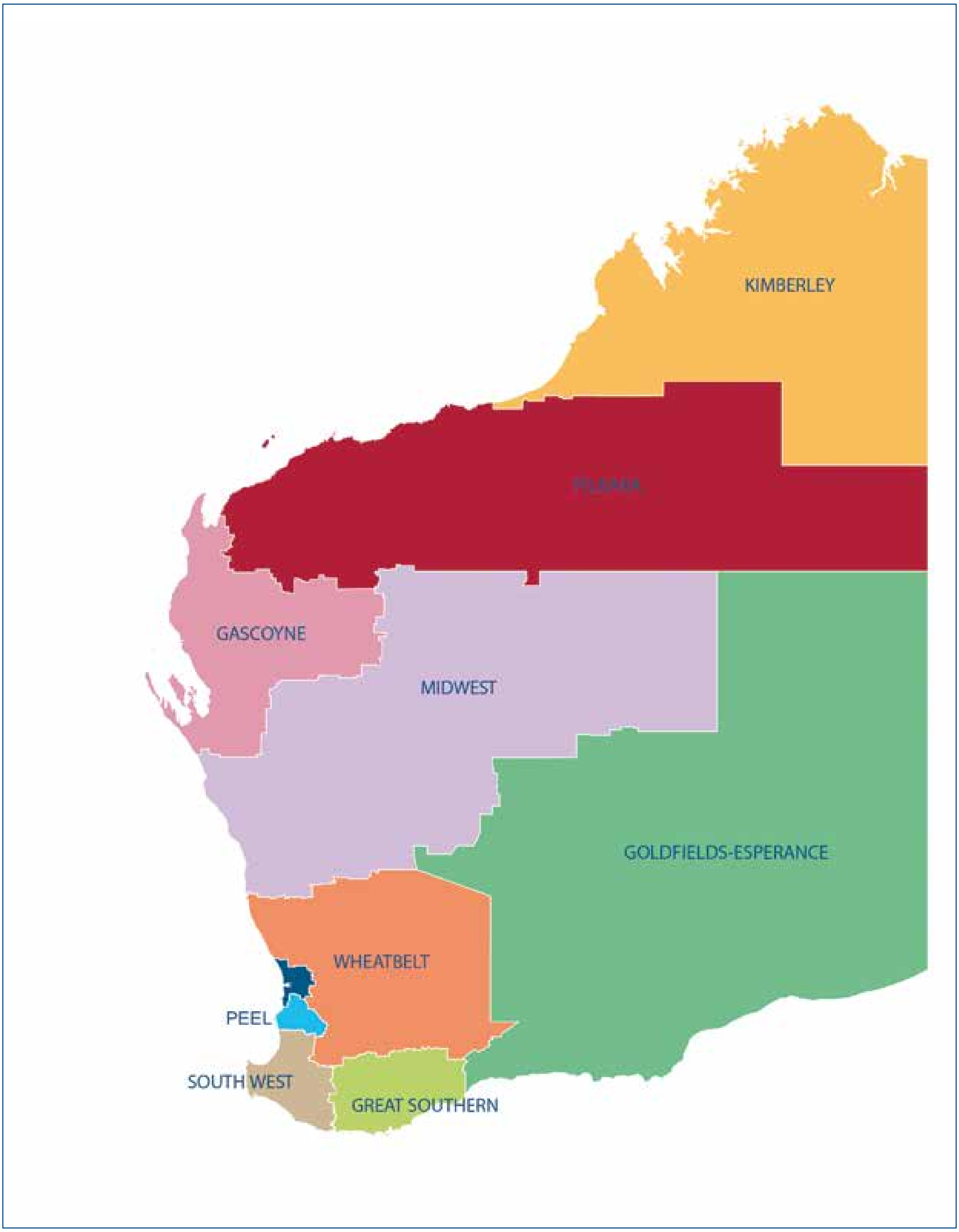
The Chair of each RDC sits on the Regional Development Council. The Council is an advisory body to the Minister for Regional Development on all regional development issues. It also refers some RfR business cases, developed in consultation with the RDCs, to the Department. All RDCs are currently working with the Department on blueprints to guide and prioritise future RfR funding allocations, completion of which are expected by 30 December 2014.

In 2012-13 the regions that received the most funding were primarily the larger geographical regions (Pilbara, Kimberly and Gascoyne) that have experienced significant growth over the last ten years.

Region	2011-12 $ millions	2012-13 $ millions
Gascoyne	50	46
Goldfields-Esperance	75	46
Great Southern	43	53
Kimberley	116	194
Mid West	31	50
Peel	11	13
Pilbara	234	372
South West	43	86
Wheatbelt	43	47

Source: The Department and OAG

Table 3: Funds distribution for RIHF and RCSF by region (amounts do not include administration)



Source: The Department

Figure 3: Western Australian Regional Development Commissions

What Did We Find?

RfR is providing infrastructure and services to the regions, but the Department does not know if projects will achieve their long term benefits

All RfR funding is approved by Cabinet. As such, we expected the Department to have rigorously assessed all projects to inform Cabinet's decision and ensure project outcomes were likely to contribute towards the RfR objectives and could be measured. However, within our sample, there was significant variation in the quality of the information submitted by the Department to Cabinet particularly in how projects aligned to the RfR objectives and whether they demonstrated long term sustainability.

The Department has not implemented indicators to assist project selection or to enable measurement against RfR objectives

Indicators developed by the Department in 2009 for the six RfR objectives are still to be fully implemented, despite advice given to the Parliament that they would be. The indicators were intended to allow a project's contribution to the RfR objectives to be measured.

In May 2009 the Parliament's Standing Committee on Estimates and Financial Operations undertook an inquiry into the RfR Policy. The then Minister for Regional Development advised the Committee that the Department was developing a process for measuring the impact of RfR funding. This included developing a framework and indicators for measuring the social and economic impact of RfR. The framework was implemented in 2011.

While indicators were developed and piloted in 2009 they were not implemented because of what the Department saw as the complex nature of RfR. Specific issues were the large variety of projects, and difficulties in retrospectively applying indicators to already approved projects.

The indicators were intended to enable individual projects to demonstrate how they aligned to the RfR objectives and to enable the Department to consistently measure how each project contributed to achieving the RfR objectives.

The indicators developed by the Department for each of the six program objectives are shown in Figure 4. As can be seen, they are not specific or measurable.

Building capacity in regional communities

- Community infrastructure
- Community learning initiatives
- Community awareness initiatives
- Community capability initiatives
- Community capacity initiatives

Retaining benefits in regional communities

- Crime prevention initiatives
- Initiatives to support body, mind and soul
- Education and training initiatives
- Employment initiatives
- Retention initiatives – workforce or population
- Retention initiatives – services
- Cultural diversity initiatives
- Volunteering initiatives
- Community communication initiatives

Improving services to regional communities

- Community communication initiatives
- Service offering initiatives
- Service quality initiatives
- Service flexibility initiatives
- Access to non-specialised service initiatives
- Disability access initiatives

Attaining sustainability

- Delivery of government services and other service initiatives
- Population diversity initiatives (education, culture, age, gender)
- Economic investment initiatives
- Environmental initiatives

Expanding opportunity

- Direct employment initiatives
- Skills training initiatives
- Business creation initiatives
- New job creation initiatives

Growing prosperity

- Local business support initiatives aimed at economic development
- Local infrastructure initiatives aimed at economic development
- Investment initiatives

Source: The Department and OAG

Figure 4: RfR objectives and potential indicators

More recently, the Department advised that it will provide the indicators 'to recipients of funding as a guide to developing indicators which show relevance to projects undertaken'. But, it is not clear how this will assist the Department to measure the impact of RfR funding.

The long term viability of projects was not a key consideration before 2013-14

Facilities built from RfR funding will generally not receive ongoing RfR funding to meet maintenance and other operational costs. Such costs can represent a significant risk to long term sustainability, particularly if the assets are not State owned. The Department refers to sustainability as a project's 'capacity to endure and thrive economically, socially, culturally, and environmentally'.

Prior to 1 July 2013, the Department did not require applicants to address project sustainability in their business cases. Non-state government projects worth about $729.2 million were approved prior to this date and are not likely to have ongoing costs met by the State. This represents 140 of 351 RCSF and RIHF projects on the Department's register.

While not all of the 140 projects will incur ongoing costs, those that will are more likely to deliver long term benefits to regional communities if their capacity to meet ongoing operating and maintenance costs is demonstrated during planning and business case development.

The need for project sustainability was considered by the Department in a December 2012 discussion paper. The paper highlighted significant potential to improve the sustainability of projects to ensure they 'do not place unreasonable financial, operational, social or environmental strain on a recipient or community, and they are well-positioned to thrive beyond RfR funding'. Issues identified by the Department included:

- the variable quality of long term planning in business cases
- financial and operational viability of projects beyond RfR funding
- gaps in the capacity and skills of project teams to complete and continue projects.

The discussion paper referred to the Department's clear role in forging a culture of RfR sustainability and led to changes in the Department's 2013-14 business case template. It now requires applicants to address project sustainability by providing five years of operational and maintenance costs and income sources for their projects. However, we found that the capacity to assess project sustainability is limited by the quality of information in project business cases.

The Department relies on other parties, such as the Department of Treasury and the RDCs to carry out some sustainability assessments. Eleven of the 16 projects we reviewed came to the Department through the RDCs or the Regional Development Council. The business case for five of these projects, all of which are likely to incur ongoing costs, contained no evidence of a sustainability assessment.

We reviewed three additional projects, worth $68.7 million, that used the 2013-14 business case template. We found one of the three projects would not incur ongoing costs. The other two projects received $58 million of RfR funding and were likely to incur ongoing costs. Both were run by State Government agencies. While both identified ongoing costs within their business cases, they did not quantify those costs.

Risk identified by the project	Level (low, medium, high)	Mitigation
Example one ($21 million)		
Ongoing maintenance of infrastructure installed	High	[The Agency] …will incorporate ongoing maintenance of new infrastructure within existing budgets.
Example two ($37 million)		
Ongoing maintenance of infrastructure installed	Medium	All State agencies have agreed to incorporate ongoing maintenance of new infrastructure within existing budgets.

Table 4: Project identification of ongoing risks and costs in business cases

For State owned assets, Treasury, by way of its Strategic Asset Management Framework, encourages all asset investment decisions above $1 million to be based on a business case that includes capital and operating items, including recurrent costs throughout the asset's life.

While both projects acknowledged substantial risks around the ongoing maintenance of RfR funded infrastructure in their business cases, they did not quantify the expected recurrent costs, yet were still funded.

The business cases for these two projects did demonstrate some improvement in the way ongoing costs were being addressed. Nevertheless, the Department should have required that such significant projects quantify the expected amount of ongoing costs and the funding source to meet those costs.

If projects are to deliver long term benefits to regional communities they must remain viable. This requires that projects secure income sources to meet ongoing operational and maintenance costs after RfR funding has ceased. There are wide ranging implications of not considering these costs including infrastructure decline and closure, and the potential that regional communities will have to fund these costs either through increased council rates or the use of reserve funds.

This is demonstrated by the inability of one project we reviewed to secure an income source to pay for the facility's maintenance program. While the business case referred to a potential revenue stream from a then still to be completed commercial agreement, the income stream was still unrealised at the time of our audit. The project was completed in April 2013 and received $3.6 million in RfR funding.

Further implications are demonstrated by articles in:

- the West Australian on 19 June 2013 that the Port Hedland Council was considering closing its public swimming pool and library, built with RfR funding, because the council was not able to afford to maintain the assets. More information on this article can be found at: https://au.news.yahoo.com/qld/a/17661751/port-hedland-pool-library-may-close/
- the Busselton Dunsborough Mail on 5 June 2013 reporting the likelihood of a 1.25 per cent rate increase in 2013-14 to meet the cost of various major projects underway, some of which were funded by RfR. More details can be found at: http://www.busseltonmail.com.au/story/1552349/rates-to-be-525/.

The Department's outcomes based Evaluation Framework has not been consistently applied

In 2009 when RfR was rolled out, priority was given to providing what was considered to be much needed and overdue infrastructure and services to regional communities. At that time, delivering sustainable communities was acknowledged as an RfR objective, but the program was primarily focused on addressing community needs by delivering tangible outputs. Two years later, the Department implemented its outcomes based funding and evaluation framework. The Framework, if fully implemented, was to provide the Department with outcomes based processes to meet the RfR program's longer term objectives.

However, we found the Department had not consistently implemented its outcomes based Framework. Projects did not always identify specific and measurable outcomes, demonstrate clear alignment to the RfR objectives, or report on project outcomes.

The Trust recommended in 2010 that all RfR projects and programs must be outcomes based. The recommendation was approved by the Minister in June 2011 and agreed to by the Department.

While the Framework has been embedded in the Department's processes, in practice RfR projects remain primarily focused on delivering tangible outputs. The Department advised that some projects are approved by Cabinet purely to deliver outputs. It is unclear to us why the Department would try to apply outcomes based processes to these projects.

Six of the 16 business cases we reviewed did not demonstrate clear alignment to one or more of the RfR objectives. The following two examples show the variability of project alignment to the RfR objectives. One project demonstrated poor alignment, the other better alignment. Both projects were approved (see Table 5).

Project alignment to RfR objectives	
Poor alignment ($15 million)	**Better alignment ($15 million)**
'In respect to the broad objectives of the Royalties for Regions Program the provision of the … compliments all the following objectives: • Building capacity in regional communities • Retaining benefits in regional communities • Improving services to regional communities • Attaining sustainability • Expanding opportunity • Growing prosperity'	• **Attaining sustainability** The region is on the brink of rapid expansion. This facility will provide the necessary training to contribute to a sustainable workforce to service the growing needs of the region. The facility will showcase best practice in training across a range of industry areas and will provide employers and service providers in the region with a valuable teaching a workforce development resource. • **Expanding opportunity** The … will enable the delivery of new qualifications as well as expanding existing training delivery capability. The … will ensure that students are exposed to a state of the art training environment, and that their skills are current and relevant to the needs of industry. • **Growing prosperity** The … will provide the opportunity for … to increase the number and range of training programs delivered as well as moving into higher level qualification. This will help ... assist in achieving the … target of halving the proportion of … and doubling the number of … by 2020.

Table 5: Project alignment to RfR objectives

The lack of specific and measurable indicators for the RfR objectives will continue to contribute to the variability of business case alignment. This issue was discussed earlier in the report under the heading 'The Department has not implemented indicators to assist project selection or to enable measurement against RfR objectives'.

We also found all 16 projects had a funding agreement in place that identified quarterly, annual and final project reporting obligations. This was consistent with the Framework which identified quarterly reporting as the starting point for outcomes evaluation.

However, we found that funding milestones in the agreements were tied to the delivery of outputs, not outcomes. While this appears to be inconsistent with the Framework, we consider that it is appropriate in cases where project outcomes are not likely to be realised until after project completion.

Project outcomes identified in business cases were not specific or measurable

Not all project business cases we reviewed had specific and measurable outcomes. This is consistent with a conclusion reached by the Trust in 2010:

> 'that over the first two years of Royalties for Regions business cases were written more as statements of intent, not funding rationale to address an unmet need'

Further, to consistently implement its outcomes based framework we expected the Department to ensure all business cases included specific and measurable outcomes before submitting them to Cabinet for approval. This was also a conclusion reached by the Trust in 2010:

> ‘business cases that lend themselves to being supported for funding should make a clear case for the project within the context of the Royalties for Regions policy objectives including outcomes the project is to achieve’ and that they should ‘identify the measures that will be used to assess the extent to which the project outcomes are achieved’

Since 1 July 2011, the Department’s business case template has required projects to list the key outcomes and outputs to be achieved in undertaking the project, and to describe the performance indicators to be used to assess the success of the project. Specifically:

> ‘The use of S.M.A.R.T philosophy (ie. Specific, Measurable, Attainable, Realistic and Timely/Tangible) is suggested as a way of defining the measures…’

Fourteen of the 16 projects we reviewed used the 2011-12 or later business case template. We expected that all 14 projects would identify clear outcomes that were specific and measurable. We found that seven of the 14 projects did not include specific and measurable outcomes.

We also found that in some instances the Department relied on the project objective in the business case as being the high level project outcome. However, the project objective was not always specific and measurable.

The following examples from two of the 14 projects that used the post 1 July 2011 business case template shows the variability in outcomes identification in business cases. One example demonstrates poorly identified outcomes, and the other, while better, still does not include specific and measurable outcomes.

Poorly identified outcomes ($22 million)	Better identification of specific and measurable outcomes ($13 million)
‘To facilitate a high standard … development that improved the quality of life for …residents’	Utilisation of the … by the target population • Number of new admissions • Number of clients accommodated • The average days of accommodation A reduction in alcohol and drug related incidents • Hospital admissions • Rate of arrests • Rate of imprisonment A decrease in anti-social behaviour • Number of police complaints made • Number of complaints made to the Shire Client satisfaction • Positive Feedback • Rate of revisitation

Table 6: Examples of outcomes identification in business cases

In July 2012 the Department improved its definitions of outcomes and outputs to assist projects in identifying their deliverables. The improved definitions are shown in Figure 5. However, we think the description of an outcome will remain unclear to many.

Output

Means the end product of the project. For example an infrastructure asset or services delivered.

Outcome

Means the intended consequence(s) of the project. For example, the project's linkage to and delivery of the Applicant's strategic objectives, alignment with the Royalties for Regions objectives.

Source: 2012-13 RfR business case template

Figure 5: Outputs and outcome definitions

Evaluations did not show if projects met their intended outcomes

At the time of our audit the Department had completed seven evaluations which included 12 case studies across the program. These are shown in Table 7. We reviewed two of the evaluations and found that while they did show what the projects had done and what was delivered, they did not show if projects had achieved their intended outcomes.

Evaluation	Completion date
Community Resource Centre Benchmarking Pilot	November 2009
Country Age Pension Fuel Card Impact Assessment	August 2010
Country Age Pension Scheme Boundary Review	May 2012
Social Impact Assessment of the RfR 2008-09 Pilbara Community Development Projects	November 2012
Evaluation of the Effect of RfR funded Health Projects in Regional Western Australia	April 2013
Six Pilot RfR Case Studies	March 2013
Recreation and Tourism Case Studies	May 2014

Source: The Department and OAG

Table 7: Evaluations completed by the Department

While the Framework refers to the Department selectively evaluating projects, we still expected all projects to be capable of having their outcomes evaluated by the Department or the funding recipient.

The Department advised, in support of its selective approach to evaluation, that it is 'the recipient's responsibility to measure outcomes at the project level' and that 'it would be a duplication of resources and effort for several parties to evaluate the same project'.

While we agree that the Department should not be duplicating effort, we found that it had not mandated that projects evaluate their outcomes, other than through the requirement for all projects to lodge a Final Project Acquittal. This final acquittal includes some outcomes reporting and is required within three months of project completion.

We consider the acquittal's value to the Department in measuring achievement against the RfR objectives is limited if projects do not have specific and measurable outcomes to report against, and that its timing may be too early for many outcomes to have been realised.

The Department's current monitoring system does not provide project and program oversight

We expected the Department would have a system that provided oversight of funded projects and the program. This should enable the Department to identify potential issues, risks and successes in the achievement of the RfR objectives.

We found that the Department's Grant Register records project information like approval dates, agreement start and end dates, and funding drawdowns, and high level project status. Individual project managers also maintain spreadsheets on day to day project reporting. The lack of a single data source makes it difficult for the Department to track projects and have clear oversight of the program.

Of the 351 projects on the Grant Register, 238 had agreement end dates listed. Fifty-one of these had exceeded their end date, but were listed in the register with a status of 'Active – progressing in line with Agreement'. The register did not detail why these projects were considered to be progressing in line with their agreement when they had exceeded their end date. Fourteen of the 51 had exceeded their end date by more than 12 months. This raised concerns for us that some projects may be lagging behind expected timeframes, which may reduce the successful delivery of outcomes and benefits.

The Department is in the process of implementing an integrated project tracking system. However, at the time of our audit this system was still being developed and has not been reviewed.

Appendix 1: Audit Sample

Category	Description	Cabinet approval date	Funding agreement date	Fund	Funding allocated ($ millions)	Stage at October 2013
Infrastructure						
Community Development	Funding to meet contract and material costs relating to the upgrade of the Foreshore	February 2011	June 2011	RCSF	3.6	Complete
Community Development	Planning and works for Stage 3 of a Town Centre Revitalisation	November 2012	March 2013	RIHF	21.9	In-Progress
Community Development	Facilitate the building and works associated with the redevelopment of an Aquatic and Recreation Centre	June 2012	January 2013	RCSF	11.0	In-Progress
Community Development	Design and construction costs associated with for the development of a Gallery and Administration building, Caretaker Accommodation and two units	September 2012	March 2013	RIHF	8.5	In-Progress
Community Development	Infrastructure and Road networks to connect suburban areas with principle employment centres	December 2012	June 2013	RIHF	13.9	In-Progress
Community Development	Restorative works on Memorial site	August 2012	June 2013	RIHF	2.8	In-Progress
Housing	Development and Management of Seasonal Workers Accommodation	April 2011	August 2011	RIHF	15.2	Complete
Housing	Design and construction of an Indigenous Visitors Hostel	November 2012	March 2013	RIHF	12.7	In-Progress
Housing	Construction of additional housing units for Well Aged Persons across multiple local governments	January 2013	May 2013	RCSF	5.0	In-Progress
Housing	Construction and fit out costs for a Residential Aged Care Facility	December 2012	May 2013	RIHF	6.1	In-Progress
Education	Construction of Stage 2 of a University Centre	July 2012	October 2012	RIHF	3.0	In-Progress
Education	Construction and fit out of a Performance Arts Centre	November 2012	September 2013	RIHF	3.2	In-Progress
Education	Construction and expenses associated with the establishment of a Centre for Health Training and Workforce Development	April 2012	January 2013	RIHF	15.0	In-Progress
Services	Design and construction of a purpose built Power Station and Electrical Distribution Network and new drinking water source	December 2012	January 2013	RCSF	10.0	In-Progress
Non Infrastructure						
Education	Salaries and other travel cost for the implementation and delivery of an employee Attraction and Retention Program	January 2013	June 2013	RIHF	4.9	In-Progress
Marketing	Implementation of a Marketing Program to promote regional tourism	September 2012	June 2013	RCSF	7.9	In-Progress

Auditor General's Reports

REPORT NUMBER	2014 REPORTS	DATE TABLED
12	Government Funded Advertising	25 June 2014
11	Licensing and Regulation of Psychiatric Hostels	25 June 2014
10	Universal Child Health Checks Follow-Up	18 June 2014
9	Governance of Public Sector Boards	18 June 2014
8	Moving On: The Transition of Year 7 to Secondary School	14 May 2014
7	The Implementation and Initial Outcomes of the Suicide Prevention Strategy	7 May 2014
6	Audit Results Report – Annual 2013 Assurance Audits (Universities and state training providers – Other audits completed since 1 November 2013)	7 May 2014
5	Across Government Benchmarking Audits – Controls Over Purchasing Cards – Debtor Management – Timely Payment of Invoices	1 April 2014
4	Behaviour Management in Schools	19 March 2014
3	Opinion on ministerial decision not to provide information to Parliament about funding for some tourism events	18 March 2014
2	Charging Card Administration Fees	12 March 2014
1	Water Corporation: Management of Water Pipes	19 February 2014

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