



AUDITOR GENERAL'S REPORT

Third Public Sector Performance Report 2005

Report 9 – November 2005



AUDITOR GENERAL for Western Australia

Serving the Public Interest



AUDITOR GENERAL for Western Australia
Serving the Public Interest

THE SPEAKER
LEGISLATIVE ASSEMBLY

THE PRESIDENT
LEGISLATIVE COUNCIL

THIRD PUBLIC SECTOR PERFORMANCE REPORT

I submit to Parliament my third Public Sector Performance Report for 2005 pursuant to section 95 of the *Financial Administration and Audit Act* (FAAA). This Report contains four items that have arisen from work undertaken pursuant to section 80 of the FAAA.

A handwritten signature in black ink, appearing to read 'D D R Pearson'.

D D R PEARSON
AUDITOR GENERAL
16 November 2005

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LEGISLATIVE COMPLIANCE

Unauthorised Driving – Unlicensed Drivers and Unregistered Vehicles in Western Australia

Overview

Unauthorised driving occurs when someone drives without a valid driver's licence or drives an unregistered vehicle. Studies here and overseas have shown that unauthorised drivers tend to be high risk drivers who are more likely to drive under the influence of alcohol, or speed or not wear seat-belts than authorised drivers. They are also over-represented in fatal and serious car crashes.

The Department for Planning and Infrastructure (DPI) is responsible for administration and enforcement of Western Australia's driver and vehicle licensing laws. The Western Australia Police Service (Police) have primary responsibility for detecting and prosecuting breaches of the law.

Key Findings

- There is no reliable data on the incidence of unauthorised driving in Western Australia (WA). Estimates based on data from other jurisdictions suggest as many as 66 000 WA drivers (almost four per cent) and 70 000 vehicles (about three per cent) drive on WA roads without authorisation. Conservative estimates also suggest that the State could be forgoing almost \$9 million annually in unpaid car registration fees. Owners who do register their vehicles are also paying about \$10 per vehicle more in Third Party Insurance premiums than they would if all vehicles on the road were registered.
- Legal and technical difficulties limit the ability of Police and DPI to detect and prosecute unauthorised drivers. Proposed legislative amendments and new technology may change this.

What Should Be Done?

- DPI should determine the incidence and type of unauthorised driving in WA so that it can assess the risks posed to the community.
- Police should expedite development of high volume electronic licence and registration checks to increase detection of unauthorised driving.
- Police should give priority to resolving the issues that are delaying proclamation of stronger owner onus legislation passed by Parliament in 2000. Implementation of this legislation will make owners of vehicles identified by speed or red light cameras responsible for unauthorised driving unless they give a sworn statement either naming the actual driver or giving good reasons why they cannot identify the driver.
- DPI should actively pursue amendments to the *Road Traffic Act 1974* (RTA):
 - to enable Police to issue an infringement notice rather than a court summons to people caught driving an unregistered vehicle
 - to allow court orderlies to accept licences surrendered by disqualified drivers.

LEGISLATIVE COMPLIANCE

Unauthorised Driving – Unlicensed Drivers and Unregistered Vehicles in Western Australia ... continued

Background

Unauthorised driving occurs when someone drives an unregistered vehicle or drives without a valid driver's licence. Studies here and overseas have shown that unauthorised drivers tend to be high risk drivers who are over-represented in fatal or serious car crashes.

One study¹ showed 10 per cent of drivers involved in fatal crashes in WA did not have a valid licence. This was higher than the Australian average of six per cent and the highest of all the States. Studies of fatal accidents² have also shown that unlicensed drivers when compared to licenced drivers are:

- over three times more likely to drive under the influence of alcohol
- over twice as likely to speed
- over twice as likely not to wear seatbelts
- almost twice as likely to be fully or partially responsible for the crash.

The costs to the community of unauthorised driving resulting in crashes can be considerable. Aside from the personal tragedy, significant financial costs can be incurred by the State in treating and compensating victims. In addition, the State forgoes revenue, which we estimated could be more than \$9 million, from unpaid registration fees, while owners who do register their vehicles are paying on average about \$10 per vehicle more in third party insurance premiums than they would if all vehicles on the road were registered.

Unauthorised driving also calls into question the effectiveness of existing vehicle and licence sanctions. One interstate survey³ of disqualified drivers reported that more than half were pulled over by Police at least once while they were driving without a valid licence but more than one-third managed to evade detection. More than half of those who did evade detection reported being able to do so on two or more occasions.

The Department for Planning and Infrastructure (DPI) is responsible for administration and enforcement of Western Australia's driver and vehicle licensing laws. The Western Australia Police Service (Police) have primary responsibility for detecting and prosecuting unauthorised drivers. The Department of Justice through its Fines Enforcement Registry (FER) can suspend a driver's licence and vehicle registration for non-payment of fines. FER suspensions represent about half of all suspensions.

¹ Federal Office of Road Safety 91997) *Profile of Unlicensed Motorists in Fatal Crashes*. Monograph 20.

² Federal Office of Road Safety 91997) *Road Behaviour of Unlicensed Motorists involved in Fatal Crashes*. Monograph 21

³ Watson B. (2002). A survey of unlicensed driving offenders. 2002 Road Safety Research Policing and Education Conference Proceedings – Peer Reviewed Proceedings (pp. 181-190). Adelaide: Transport SA

What Did We Do?

We assessed the arrangements in place to detect and deal with unauthorised driving. The main focus was on DPI which administers the State's driver licence and vehicle registration systems and the Police which is responsible for detecting and prosecuting breaches of the law. Information was also obtained from FER and the Office of Road Safety, a unit of the Department of Premier and Cabinet and the operational arm of the Road Safety Council.

Our review covered:

- incidence of unauthorised driving
- administration and enforcement by Police and DPI
- monitoring and evaluation.

What Did We Find?

Incidence of Unauthorised Driving

We found that neither DPI nor Police have comprehensive or reliable data on the incidence of unauthorised driving in the general community in Western Australia. Without reliable data it is difficult to estimate the road safety risk or the potential costs to the community from unauthorised driving.

DPI data shows that at 30 June 2004 there were about 1.6 million licences on record. DPI data also shows that on an average day in WA there are about 88 000 drivers with suspended, cancelled or expired licences. The drivers that make up this total change regularly as suspensions etc are lifted or new ones imposed. The 88 000 total also does not include drivers who have never held a licence. For these reasons we consider it to be a conservative indication of the total cohort of unauthorised drivers.

Surveys of disqualified drivers both here, interstate and overseas show that between 30 and 75 per cent will drive while disqualified⁴. Applying these rates to the conservative estimate of disqualified drivers mentioned above suggests that between 26 000 and 66 000 disqualified drivers in WA will drive at some stage when they are not entitled to do so. There is no data on how frequently they drive while disqualified but one of the most common explanations given is the need to get to and from work. Police data shows that they charge between 80 and 130 people daily for driving without a valid driving licence. However, there is no way of knowing what percentage this represents of the unauthorised driving that occurs daily.

⁴ Ferrante A. (2003). *The Disqualified Driver Study*. Crime Research Centre, University of Western Australia.

LEGISLATIVE COMPLIANCE

Unauthorised Driving – Unlicensed Drivers and Unregistered Vehicles in Western Australia ... continued

We were unable to find reliable data on the use of unregistered vehicles in WA. Eastern States data⁵ indicates that just over three vehicles in every hundred on the road may have been unregistered for over a year. WA had almost 2.1 million vehicles on record at 30 June 2004. Using the Eastern States estimate, this means there may be over 70 000 vehicles being driven on WA roads that have been unregistered for more than a year. Based on this figure, WA could potentially be forgoing more than nine million dollars in car registration fees each year. As well, owners who do register their vehicles pay higher third party insurance premiums than would be the case if all vehicles on the road were registered. The Insurance Commission of Western Australia has estimated this cost at about \$10 per registered vehicle in 2004-05.

Notifying unauthorised owners and drivers

The Police advise that unauthorised drivers when stopped on the road commonly claim they were unaware that their licence or vehicles registration had expired or been suspended. In such circumstances police officers will sometimes decide not to prosecute.

The extent to which these claims may be valid is impossible to determine. FER notifies drivers and owners of fines suspension by normal mail sent to their last known address. DPI also uses normal mail for renewal notices and for notices of impending suspensions and cancellations. DPI and FER advised that the rate of returned mail ranged from 2.1 per cent for vehicle registration and driver licence renewal notices to eight per cent for fines suspension notices. Changes of address or avoidance are thought to be the most common reasons for most returns.

Owners and drivers are required under the RTA to notify DPI of any change of address within 21 days of the change. The penalty for not notifying is \$200 for a first offence and \$400 for a subsequent offence. However, prosecutions are rare.

Audit is aware that many government agencies have trouble contacting clients because clients fail to notify all relevant agencies when they change their address. Privacy issues limit the capacity for agencies to check address information against the database of other agencies that may have more current information. These limitations have resource and public safety implications that may be relevant to the current debate about the introduction of privacy principles in the public sector.

⁵ Travelsafe Committee Report No 27 (1999). *Unlicensed, Unregistered and On The Road – The road safety implications of unlicensed driving and the driving of unregistered vehicles in Queensland.*

Enforcement by Western Australia Police Service (Police)

General

Lawful road user behaviour is one of three Desired Outcomes in Police's 2005-06 Annual Business Plan. The operational emphasis for this Outcome is on contributing to road safety and whole-of-government road safety programs such as the *Arriving Safely* Strategy. Responsibility for translating the Business Plan priorities into specific actions is largely devolved to districts.

We found that enforcement action by the Police is focused on the four high risk road behaviours of speeding, driving under the influence of alcohol, failure to wear seatbelts and driving while fatigued. Unauthorised driving offences are not normally the target of special operations but action is taken if they are detected during other operations. Police provide each district with monthly updates on unlicensed drivers and unregistered vehicles thought to be in the district. This information is then distributed to traffic units attached to each district who use it in planning routine traffic enforcement and special operations.

RBT

Random breath testing (RBT) is a high volume traffic enforcement operation designed to reduce drink driving. It also represents an opportunity to detect and deter other forms of unlawful road user behaviour, including unauthorised driving, as studies here and overseas have shown that unlicensed drivers are over three times more likely to drive under the influence of alcohol than licenced drivers. Police currently test about one million drivers each year through RBT operations but we found that Police do not routinely check licence and registration during RBT operations.

Police have advised that the time required to do these checks on a routine basis would significantly reduce the volume of drivers that could be breath tested and increase the inconvenience to law-abiding members of the public.

LEGISLATIVE COMPLIANCE

Unauthorised Driving – Unlicensed Drivers and Unregistered Vehicles in Western Australia ... continued

Police have trialled new technology that allows faster checking of driver and vehicle licence details and Police's 2005-06 Business Plan highlights the need to 'enhance targeted traffic policing activities with the use of Automatic Number Plate Recognition cameras and RBT operations'. However, Police have advised that technical and resource issues currently limit their ability to make routine use of this technology.

Surrender of licence on disqualification

By law, drivers whose licences have been cancelled or suspended are required to surrender their licence on demand. Requiring a disqualified driver to surrender their driver's licence is traditionally considered a deterrent in its own right while also making it easier for police to detect unauthorised driving when it occurs.

In the past, when police carried out the duties of court orderlies, they stopped offenders as they were leaving court to demand surrender of licences. When the orderly role was transferred to the private sector, however, the power, under the *Road Traffic Act 1974*, to demand surrender of a licence was not conferred on their civilian replacements. Under the Act, the Director General of DPI can delegate the power to any person. To date this has not happened. Rather, DPI has advised us that it prefers amending the RTA to give the court orderlies as a group the necessary power.

Owner Onus Legislation

Speed and red light cameras have the capacity to detect unauthorised driving but we found that 'owner onus' legislation passed by the Parliament in 2000 to enhance the deterrent effect of speed and red light cameras is still yet to be proclaimed.

Images produced by speed and red light cameras show the commission of various types of offences, including unauthorised driving, but do not show who committed the offence. In WA, the responsibility for identifying infringing drivers rests with the Police. Under the current law owners of motor vehicles do not have to furnish the Police with exact details of the driver's identify though they are required to provide the Police with whatever information they have to assist in establishing the identity of the driver.

A report by this Office in 1996 found that the Police used significant resources attempting to identify drivers and that the lack of success often forced them to cancel large numbers of infringement notices. In a follow-up report in 1999 we reported that amendments to the *Road Traffic Act 1974* had been drafted which would make the

owner responsible for the offence unless the owner provided a statutory declaration identifying the driver or declaring they did not know 'and could not reasonably have ascertained' the identity of the driver. Parliament passed this 'Owner Onus' legislation in 2000.

At August 2005 the legislation had not been proclaimed because Police do not have the technology to satisfy the legislative requirement that the owner be served with a Traffic Infringement Notice (TIN) enclosing clear photographic evidence of the offence being committed. Police advised that funding was received in 2003 to acquire the technology with the expectation that it would be operational in 2004. However, it will now not be in operation until late 2005 or early 2006. Police have advised that the delays are primarily related to the quality and timeliness of the application delivered. The application has required the vendor to merge three existing systems which have then been customised extensively to support the legislative requirement. The Police also advised that they have implemented a number of initiatives to minimise delays while ensuring that the system is delivered and implemented to the required quality standards.

In 2004-05, approximately 7 400 speeding and red light camera infringement notices were cancelled due to an inability to identify the driver.

Administration and Enforcement by DPI

Under the *Road Traffic Act 1974* DPI is responsible for administering the driver licensing and vehicle registration provisions of the Act. This makes it a key player in the delivery of services that have a direct impact on enforcement of the law in relation to unauthorised driving.

The most important service it provides is access to its licensing and registration database to help Police detect unregistered vehicles and disqualified drivers. We found that DPI's records of drivers whose licences have been suspended for non payment of fines (fines suspended licences) have recently been improved.

LEGISLATIVE COMPLIANCE

Unauthorised Driving – Unlicensed Drivers and Unregistered Vehicles in Western Australia ... continued

Fines suspended licences

Police relies on DPI's information system to identify drivers under fines suspension. Since mid 2004 DPI has been addressing inconsistencies between its records of fine suspended licences with those of the Registrar of the Fines Enforcement Registry (FER), a branch of the Department of Justice (DoJ). The Registrar has responsibility for suspending licences for non payment of fines. DoJ advised in October 2005 that the number of inconsistent records had been reduced to 394 and it expected a full reconciliation by the end of October 2005.

DPI advised that the cause of the original problem was technical difficulties which have now been resolved. Routine reconciliations will be conducted to give future assurance.

Prosecutions for driving an unregistered vehicle

We found that DPI does not prosecute detected instances of unauthorised driving involving an unregistered vehicle. Such prosecutions ceased in 2001.

Responsibility for prosecuting owners of unregistered vehicles passed to DPI from Police in 1999. Initially DPI actively investigated and successfully prosecuted several thousand offenders but in 2001 it decided to cease investigations and prosecutions because of the relatively high costs involved in funding these activities. Police, however, still send DPI lists of unlicensed vehicles detected by speed and red light cameras for further action including retrieving licence plates.

Audit acknowledges that prosecuting offenders for driving unregistered vehicles is a relatively resource intensive process because the offenders cannot be dealt with by the issue of an infringement notice but only by a summons to appear in Court. However, failure to prosecute has the potential to undermine the integrity of WA's licensing system.

In mid 2005 Cabinet approved a package of legislative reforms to permit enforcement by the issue of an infringement notice. The reforms are currently being drafted and are scheduled for consideration in Parliament later this year.

Monitoring and Evaluation

One of the aims of the State's road safety strategy, *Arriving Safely* is to improve traffic enforcement in relation to the four high risk road trauma behaviours of speeding, driving under the influence of alcohol, not wearing seat belts and driving while fatigued. Studies show speeding, driving under the influence and not wearing seat belts occur commonly in tandem with unauthorised driving. This suggests that improving detection in relation to these three behaviours will also boost detection of unauthorised driving.

The strategy includes 15 indicators for monitoring and assessing improvements to traffic enforcement in relation to the high risk behaviours. However, we were unable to determine if enforcement, as measured by these indicators, is becoming more effective. We found that no baseline data has been collected for any of the 15 performance indicators and only two of them have any performance information at all for 2003, the strategy's first full year of operation.

The Office of Road Safety, which provides operational support to the Road Safety Council, advised that this issue is being resolved as part of the work of the Council's Data Sharing Group. The Office also advised that data collection difficulties mean that the first full year of data for some performance indicators will now be 2004 and that some indicators may have to be dropped.

FINANCIAL MANAGEMENT AND CONTROL

Management of the Light Vehicle Fleet

Overview

Eighty seven government agencies lease over 9 224 passenger and light commercial vehicles valued at approximately \$211 million from State Fleet, a branch of the Department of Treasury and Finance (DTF). State Fleet operates on a commercial basis. State Fleet has delegated powers to borrow moneys, enter into contracts and to purchase and sell vehicles. State Fleet also manages contracts with two private companies to provide fleet management services to government agencies.

Strategic monitoring and management of the government fleet rests with the Fleet Steering Committee though the Chief Executives of individual agencies have autonomy to manage their own fleet within the constraints of government policy.

Key Findings

- The 'WA Government Fleet Policy and Guidelines' provides an adequate framework and direction for whole of government management of the fleet as well as management by individual agencies.
- There is little whole of government monitoring and measurement of the performance of the fleet by the Fleet Steering Committee as required in the 'WA Government Fleet Policy and Guidelines'.
- State Fleet's operations are financially sustainable though this is dependent upon accurately predicting vehicle residual values. The declining second hand vehicle market makes this task difficult.
- There has been no increase in the contributions of Government Vehicle Scheme members since 2000. An increase in contributions agreed by the Fleet Steering Committee in mid 2003 was never implemented.
- Fleet management services provided by the contracted fleet managers are satisfactory and provided at competitive rates.
- None of the four sampled agencies could provide evidence that their fleet composition met operational needs in the most cost effective manner.

What Should Be Done?

- The Fleet Steering Committee should enhance its whole of government measurement, monitoring and management of the fleet.
- Government agencies should ensure that they have up-to-date fleet management plans to provide for a cost effective balance of fleet composition and utilisation to achieve operational needs.

FINANCIAL MANAGEMENT AND CONTROL
Management of the Light Vehicle Fleet ... continued

Background

In 1996, the Government sold the government passenger and light commercial fleet to Westfleet, a wholly owned subsidiary of Matrix Group Limited. The fleet was then leased back by the State Supply Commission (SSC) and on-hired to government agencies.

The arrangement with Matrix was terminated in November 2001 and State Fleet, which was established in May 2001 as a branch of DTF began purchasing and leasing vehicles to government agencies. State Fleet also acquired from Matrix the bailment rights that allowed ongoing use of the existing fleet. These vehicles are now being run-off and replaced by State Fleet vehicles. At 30 June 2004, 208 Matrix purchased vehicles remain within the fleet.

State Fleet operates on a commercial basis. Its powers to borrow moneys, enter into contracts, purchase and sell vehicles are delegated by the State Supply Commission to the Under Treasurer and the Director of Financial Operations of DTF. Borrowings are limited to \$250 million. At April 2005, State Fleet had 9 224 passenger and light commercial vehicles leased out to 87 agencies at a depreciated value of \$211.4 million.

State Fleet manages a number of contracts associated with the fleet management function. These include:

- fleet managers – two fleet managers provide a range of services to agencies
- inspection agent – assesses repair requirements for vehicles, provides indicative costing and certifies as to quality of repairs
- vehicle auctioneer – all State Fleet vehicles are sold by the contracted auctioneer at the end of the lease period.

State Fleet operates within a long standing policy framework. Under the framework, the Treasurer is accountable to the Cabinet for vehicle management and policy matters. Advice to the Treasurer on fleet issues is provided by a Fleet Steering Committee comprising senior representatives of the departments of Premier and Cabinet, DTF and Consumer and Employment Protection. (See Figure 1 for the Fleet Management Framework).

What Did We Do?

We reviewed the administration of the fleet management function by State Fleet and operational administration at a sample of four agencies. The period examined was from August 2004 until June 2005. The focus of the examination was on:

- vehicle fleet policies
- vehicle financing arrangements
- contract management
- agency use of fleet management services provided by the contracted fleet managers.

The agencies reviewed were:

- Department of Indigenous Affairs (46 vehicles)
- Disability Services Commission (369 vehicles)
- Fremantle Port Authority (57 vehicles)
- Fire and Emergency Services Authority (159 vehicles)

What Did We Find?

Fleet Policy

The 'WA Government Fleet Policy and Guidelines' issued in December 2003 is the key policy document for application by all agencies subject to the *Public Sector Management Act 1994*. State Government organisations not subject to the Act (such as the Fremantle Port Authority) are expected to have their own policies that will achieve similar effectiveness and accountability outcomes.

We found that the policy provides an adequate framework for the management of the fleet from both a whole of government perspective as well as management by individual agencies. However, the policy does require updating to reflect Fleet Management contracts put in place in August 2004 and alignment with government positions and strategies such as making greater use of four cylinder vehicles and use of LPG powered vehicles. The framework within which the policy operates is shown by Figure 1.

FINANCIAL MANAGEMENT AND CONTROL
Management of the Light Vehicle Fleet ... continued

WA Government Fleet: Framework

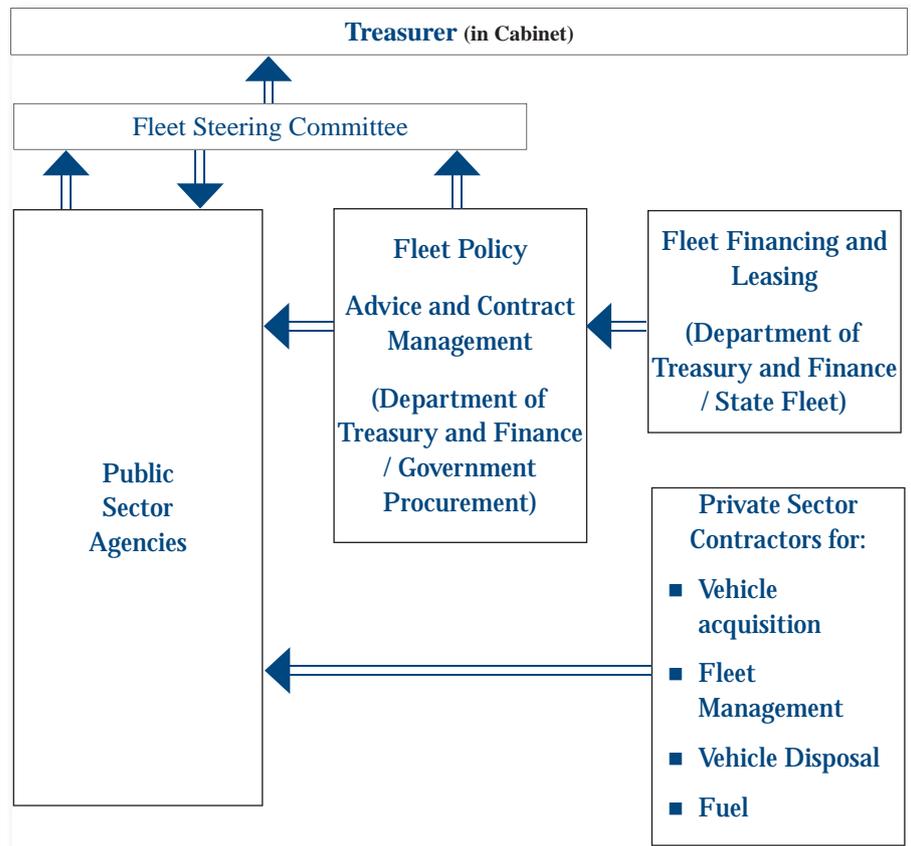


Figure 1: Fleet Management Framework

The diagram indicates the importance of the FSC in managing the whole of government fleet.

Source: DTF

The policy sets out to optimise vehicle use, reduce fleet costs and ensure that agencies are effectively managing their fleet asset. Agencies have autonomy to manage their fleet within the policy framework but are monitored by the Fleet Steering Committee (FSC).

The FSC is made up by senior representatives from the Departments of the Premier and Cabinet, Treasury and Finance (DTF) and Consumer and Employment Protection. The FSC is assisted by the Fleet Working Group with executive support provided by DTF.

The responsibilities of the FSC include:

- implementing the policy
- ensuring the Policy is current and aligned with contemporary government strategies
- advising the Treasurer on Government Fleet issues
- establishing benchmarks and performance indicators by which fleet performance across government can be measured.
- establishing the mechanism for adjusting contribution rates for employees who have private use of vehicles under the Government Vehicle Scheme (GVS).

Monitor Performance and Compliance

The examination found that there is little whole of government monitoring and measurement by the FSC (or the Fleet Working Group that supports it) of the performance of the fleet as required by the WA Government Fleet Policy.

To achieve the objectives defined in the WA Government Fleet Policy, the FSC should receive analysis and reports that enable it to ‘...monitor agency compliance and address fleet issues...to make the fleet work harder and smarter’. At the time that field work for this audit was completed in July 2005, the FSC had not met since October 2003 and had not received or reviewed performance measures or reports to monitor and assess achievement of fleet objectives. Subsequently, the FSC met in October 2005. The Fleet Working Group met in June 2005 for the first time since October 2003.

The FSC has few specific whole of government fleet objectives and related performance measures by which it can conclude on whether the fleet is working ‘harder and smarter’. However, two objectives do enable some assessment:

- in December 2004 the Treasurer wrote to all Ministers recommending that they consider making greater use of four cylinder vehicles. Savings on annual operational costs of \$1 500 per vehicle were estimated. Table 2 shows that between 2001 and 2005 there has been a 31 per cent increase in the proportion of four cylinder vehicles in the fleet and a 24 per cent decrease in six and eight cylinder vehicles. However, as no target has been set it cannot be concluded whether the strategy has been achieved.

FINANCIAL MANAGEMENT AND CONTROL
Management of the Light Vehicle Fleet ... continued

At	Vehicle Numbers	Non 4WD Commercial %	4WD Commercial %	4 Cylinder Passenger %	6/8 Cylinder Passenger %
2001	8 915	8.05	23.41	17.98	50.56
2002	8 251	8.81	23.46	18.93	48.79
2003	8 287	9.59	23.65	20.30	46.46
2004	8 564	11.81	23.79	21.81	42.60
2005	9 432	14.23	23.52	23.58	38.58

Table 2: Fleet numbers leased to agencies for the past five years

The proportion of four cylinder vehicles in the fleet has increased 31 per cent while the proportion of six and eight cylinder vehicles has declined by 24 per cent.

- In December 2000, the Premier issued a Circular to Ministers requiring their agencies to substitute 25 per cent of all six cylinder passenger vehicles and utilities that came up for replacement in 2001 with Liquefied Petroleum Gas (LPG) powered vehicles. Vehicles not due for replacement in 2001 were not included in the target. Twenty seven per cent of applicable State Fleet vehicles (17.5 per cent of all six and eight cylinder vehicles in the fleet) were LPG powered at May 2005.

Audit is also aware that DTF surveyed agencies in June 2003 and June 2005 to establish their satisfaction with fleet management services provided under contract by private sector fleet management services to agencies. At August 2005, the survey results had not been made known to the FSC.

Whole of government monitoring and management of the fleet has potential for bringing about a range of improvements including environmental and cost effectiveness. For the FSC to undertake its role effectively it requires information to pinpoint opportunities for improvement. For instance:

- average whole of life costs by different vehicle classes over different lease terms could be used to add or eliminate different types of vehicles from the list of vehicles approved for use by agencies and to recommend best value vehicles and lease terms
- vehicle usage statistics could be used to encourage specific agencies to review their fleet size.

Government Vehicle Scheme (GVS)

The GVS was established in 1999 to reduce fleet operating costs by allowing private use of some vehicles in return for financial contributions from participants. The scheme was also seen as a means of resolving difficulties in appropriately garaging vehicles after hours. At 2000, an estimated 1 500 vehicles were involved. Analysis by DTF as a consequence of this audit indicates that the GVS on 1 500 vehicles currently saves Government approximately \$2.9 million per annum.

The examination found that there has been little monitoring and analysis of the GVS since 2000. Neither the number of vehicles involved in the scheme nor the current net operating cost of the GVS is known. No change to fortnightly contributions by participants of the scheme has occurred since 2000. We did note that the Fleet Steering Committee at its October 2003 meeting decided to increase contribution rates by 2.6 per cent though this decision was not implemented. Subsequent to this examination, the FSC met in October 2005 and approved an increase in GVS rates of 6.4 per cent commencing late December 2005 with future automatic indexation of these rates on an annual basis. The increase of 6.4 per cent was based on the movement in CPI for Transportation (Perth index) since 2000.

Under the GVS, government vehicles may be made available to senior staff (level 8 or equivalent and above) for after-hours private use, subject to CEO's discretion, vehicle availability, fortnightly financial contribution and compliance with the conditions of vehicle use. The GVS replaced the Executive Vehicle Scheme (EVS) which was primarily designed to help attract and retain competent professional staff to the Senior Executive Service. Attraction and retention of senior staff is a legitimate and common objective of government vehicles schemes in Australia and elsewhere. Periodic and transparent assessment of such schemes is essential for their accountability.

Vehicle Financing Arrangements

State Fleet's operations are financially sustainable. State Fleet achieved a surplus in 2004-05 of \$7.3 million and \$5.07 million in 2003-04. Forward estimates for 2005-06 are for a surplus of \$1.9 million.

State Fleet is required to operate within a borrowing limit of \$250 million. At April 2005, borrowings were \$204.85 million, of which the current liability was \$105.6 million. Borrowings drawn each month match the range of lease terms that commence in that month. Vehicles leased each month which have a common lease term are covered

FINANCIAL MANAGEMENT AND CONTROL

Management of the Light Vehicle Fleet ... continued

by a single loan. The borrowings are at fixed interest rates. The period of borrowing matches the individual vehicle lease period. The lump sum payment at the end of the lease period matches the residual value. State Fleet advised that this financing structure arose out of discussions with the WA Treasury Corporation (WATC) in 2001 that were aimed at managing interest rate risk. However, the considerations underpinning the decisions were not documented.

Residual Value Risks

State Fleet actively monitors the second hand vehicle market to ensure that the residual values will reasonably reflect the market value less sale costs. Ongoing vigilance is vital in the current market.

The accurate determination of residual values is critical to State Fleet's operational viability. If residual values are set too low then agencies pay higher lease rates than required. However, if the residual value is set too high then the lease rental income and the proceeds from the vehicle sale will be insufficient to cover borrowings. This risk is real as lease rates are fixed at the commencement of the lease and not varied during the lease term. State Fleet also does not incorporate a profit margin on its operations though it does offset the risk through application of a two per cent margin on the borrowings through the lease rates.

State Fleet employs industry consultants and uses its own database of vehicle resales to predict residual values. We noted that until recently, the residual values set by State Fleet were generally considerably above those of comparative vehicles in the broader national market. However, since April 2005 its residual values for four and six cylinder passenger vehicles have been below that predicted in national industry guides. State Fleet advised that it has a pessimistic view of future sales prices in the local market caused by factors such as an increasing number of vehicles sold in the market that are 'virtually new' (less than 15 000 kilometres or 12 months old).

The change resulted in agencies paying an average increase in lease rates of \$30 and \$40 per month for four and six cylinder cars respectively on a standard two year/40 000 km lease. Longer term leased vehicles were adjusted by lesser amounts.

Accurately predicting residual values can be difficult, particularly in a relatively volatile and mostly declining car market as has existed over much of the last four years. Figure 2 shows that net sale prices and residual values for four and six cylinder

government passenger vehicles have significantly declined over this time. It also shows that more recently the net sale price for the six cylinder vehicles has fallen below the residual value – a loss situation on these vehicles despite the two per cent margin.

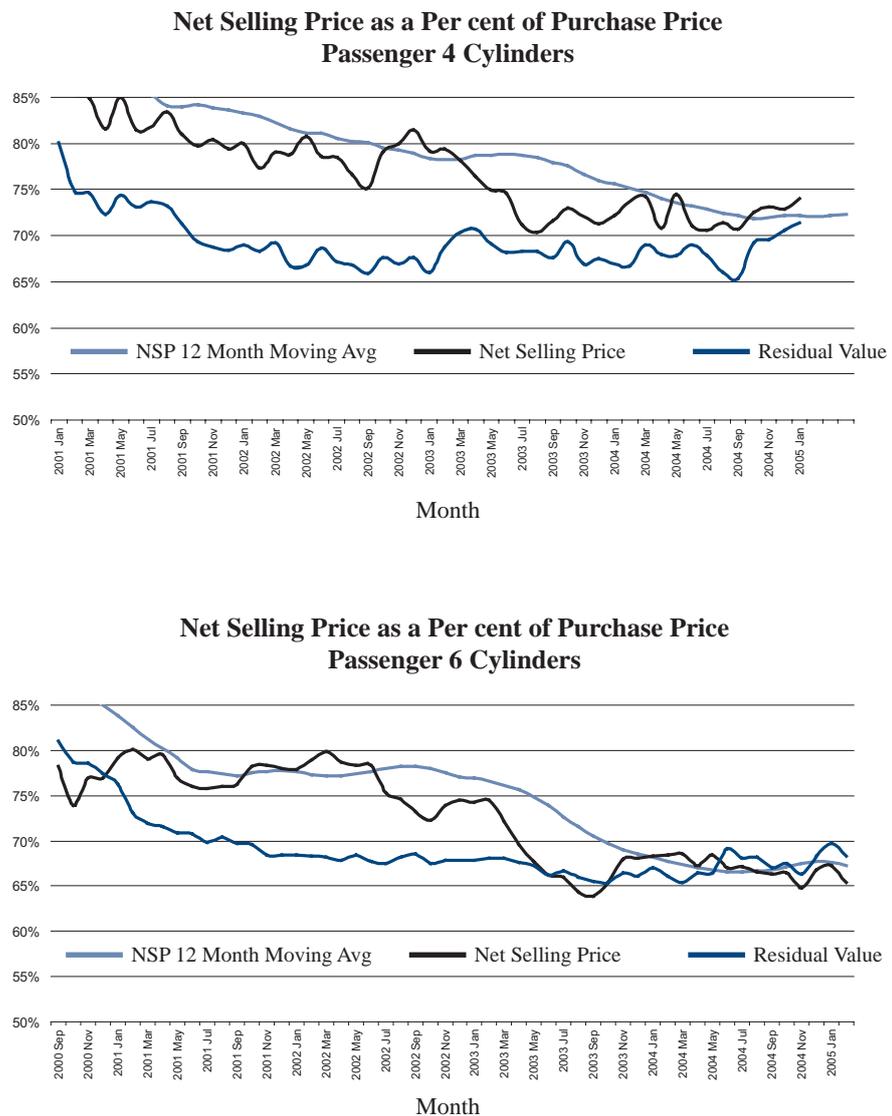


Figure 2: Net selling prices and residual values of four and six cylinder passenger vehicles – October 2000 to April 2005

The second hand vehicle market for State Government vehicles has mostly declined since 2000. This results in increased lease rates.

FINANCIAL MANAGEMENT AND CONTROL
Management of the Light Vehicle Fleet ... continued

Since 2003, State Fleet has sold 6 507 vehicles of which the net sale price of 60 per cent was more than the residual value. However, of the vehicles sold in 2005 only 46 per cent exceeded the residual value (see Table 1).

Year	Total sales	% of vehicles sold for more than the RV	Average % by which the net sale price exceeded the RV	% of vehicles sold for less than the RV	Average % by which the net sale value was under RV
2003	2 006	67%	15.45%	33%	-7.55%
2004	2 308	66%	17.00%	34%	-6.9333%
2005	2 193	46%	15.96%	54%	-9.28%

Table 1: Net sale prices compared to residual values

In 2005, the net sale price of less than half of vehicles sold exceeded the residual value.

The need for changes to residual values is considered by State Fleets on a quarterly basis in line with vehicle manufacturers' quarterly update on prices and in light of projected market conditions. Since commencing operation in 2001, State Fleet has adjusted residuals on three occasions.

Unscheduled return of vehicles

Agencies are able to return vehicles early or to hold onto them for longer than the lease period, but are penalised if they do. State Fleet has done analysis which justifies the penalties set.

In 2004-05, 33 per cent of vehicles were returned outside the nominated terms. Penalties that apply are:

- early return – agencies are charged up to 85 per cent of the remaining lease payments
- late return – agencies must pay the lease rental for each month or part thereof until the vehicle is returned and can also be penalised up to 50 per cent of the monthly rental if the vehicle is not returned within three months of the end of the lease term. State Fleet advised that only a few vehicles were returned more than three months late in 2004-05 but that penalties were not applied.

End-of-lease Repairs

It is a condition of the lease agreement with State Fleet that agencies return all vehicles in good condition and meet all costs of refurbishing and repairs required by the 'Fair Wear and Tear Standard' (the Standard). A standard is necessary to enable residual values to be set and to encourage agencies to look after their vehicles.

However, no cost/benefit analysis has been undertaken by State Fleet to establish the point at which repairs are likely to be uneconomic when compared to sale prices. Such analysis is important given the steadily declining second hand vehicle market. Our testing of repair costs at disposals indicates that the average cost of disposal repair was \$665 (excluding costs recovered through insurance). For almost eight per cent of vehicles the cost exceeded \$2 000. We noted that the average cost has risen from \$367 (CPI adjusted) since 1998.

In August 2004 State Fleet appointed an independent Inspection Agent to determine what repairs were needed to vehicles prior to sale, to provide indicative costing and to certify the repairs after completion. Prior to August 2004, necessary repairs were determined by the vehicle auctioneer and fleet managers.

State Fleet's contract with the Inspection Agent includes a requirement to establish understanding and agreement on the value at which vehicle repairs are likely to be uneconomic. At August 2005, such an understanding had not been established. However, State Fleet advised that it '...will be working with the Inspector to carefully manage down the level of refurbishment with the aim of reducing costs in a way that preserves to the extent possible our present market advantage and also equity between client agencies'.

State Fleet advised that the Fair Wear and Tear Standard is similar to those used by major commercial vehicle lessors. State Fleet's view is that vehicles needed to be presented to the disposal auctions at a good standard in order to retain the reputation and market value for second hand government vehicles. It considers that the standard provides a basis for managing risks across the fleet but that it limits the extent to which cost benefit decisions can be made regarding individual vehicles.

FINANCIAL MANAGEMENT AND CONTROL

Management of the Light Vehicle Fleet ... continued

Fair wear and tear is defined as superficial scuffs, stone chips and minor scratches so long as the surface of the paint is not broken. Interior trim can be worn but not torn or ripped or stained by a substance that cannot be removed using propriety cleaners. Tyre wear is not defined though the Inspection Agent requires vehicles to have a minimum tread depth of 1.6 millimetres. Other forms of damage such as to the windscreen, missing components or problems caused by service failure are not considered fair wear and tear and must be repaired.

Operational Management

Fleet Managers

In June 2004 State Fleet entered into a three year contract with two national fleet management companies to provide fleet management services to participant government agencies. These contracts replaced prior arrangements with four fleet managers. Under the new arrangements, agencies receive mandatory services but can also choose from a range of optional services from the fleet managers. The services include:

- | | | |
|---|---|--|
| ■ sourcing and ordering new vehicles | ■ fuel management and pricing | ■ vehicle registration and insurance |
| ■ crash management | ■ vehicle servicing | ■ warranty repairs |
| ■ provision of fleet utilisation and whole of life cost reports | ■ advice on strategic fleet management (optional) | ■ management of Fringe Benefits Tax (optional) |

State Fleet manages the fleet management contracts. At the time of audit, State Fleet's contract management plan was not fully compliant with the State Supply Commission's requirements for contracts valued in excess of one million dollars. For instance, it lacks:

- clarification of the roles and responsibilities of agencies
- strategies and performance indicators for monitoring third part purchasing by contractors
- strategies to mitigate financial and business risks.

State Fleet also lacked a structured process to monitor compliance with contract requirements. State Fleet has acknowledged the opportunity for improvement and advised that the recent appointment of a new position of contract manager will lead to these issues being resolved.

The examination found that the two fleet managers are generally providing an acceptable service at competitive rates. The current Fleet Management contract has been better tailored to agency requirements and the cost of these services is at a more competitive rate than under the previous contract. Agencies are also generally satisfied with the arrangement. An 88.3 per cent overall satisfaction rate with fleet management services was given by agencies in a survey conducted by DTF for 2004-05.

However, we did find that fleet managers are not meeting their contractual requirement to verify that agencies receive fuel discounts from fuel suppliers.

Under the fleet management contract, fleet managers are required to ensure that fuel suppliers are providing the required fuel discount prices to agencies as per State fuel contracts. This requires that Fleet Managers conduct some form of testing or reconciliation process between individual fuel slips provided to drivers when they refuel and the invoices provided by fuel suppliers. There is also a need to reconcile the consolidated fuel prices given to DTF and the invoices received by fleet managers. State Fleet confirmed that this was not being done and advised that it would be working with Fleet Managers to establish the most effective means of ensuring that fuel is being charged to government at the appropriate prices. Audit endorses this and recommends that State Fleet also ensures that some checks be done of prices received in the period leading up to the new arrangement.

Agency management

Chief Executive Officers of agencies subject to the WA Government Fleet Policy and Guidelines ‘...are responsible and accountable for managing their fleet within the Government’s policy’.

The examination at the four sampled agencies found a good understanding of the policy within the agencies and satisfactory accountability arrangements for managing the fleets. Vehicle coordinators within all four agencies had been delegated operational responsibility to manage fleet issues with the fleet managers, business cost centre managers and vehicle users.

FINANCIAL MANAGEMENT AND CONTROL
Management of the Light Vehicle Fleet ... continued

However, a number of important areas of operational management required improvement:

- *Fleet Management Plans* – none of the three agencies that are subject to the WA Government Fleet Policy and Guidelines had established Strategic Fleet Management Plans (SFMPs) as required. The Disability Services Commission (DSC) which is subject to the policy and the Fremantle Port Authority (FPA) which is not subject to the policy were the most up-to-date having undertaken vehicle fleet use studies in 2000 and 2002 respectively.

The Fleet Policy requires agencies to have SFMPs in order to establish and maintain a cost effective balance of fleet composition and utilisation to achieve their operational needs. Agencies were to define, assess, rationalise the existing vehicle fleet against operational needs and monitor performance against the changing business needs. The SFMPs should be kept up-to-date using the range of reports provided by Fleet Managers including vehicle utilisation and odometer readings, fuel consumption, lease performance and operational cost of vehicles. Little evidence was sighted of these reports being used by agencies to address highlighted issues.

- *Vehicle warranties* – appropriate servicing of vehicles is essential to maintaining manufacturer warranties, reducing end of life repair costs and helping achieve residual values. Scheduled servicing is also important for maintaining vehicle safety. However, vehicles of the DSC and FPA were often found to miss scheduled servicing. In particular, 65 per cent of DSC vehicles requiring services in April 2005 had missed one or more scheduled services.
- *Incurring of service and repair costs* – service and repairs that are not covered by warranty are paid for by fleet managers and recouped from agencies through monthly statements. Such statements can be many pages and contain hundreds of individual items. Agencies rely on the fleet managers to provide accurate and valid statements as copies of the original invoices from repairers or suppliers are not provided. In the absence of such evidence, agencies when paying fleet managers have limited assurance that the amount paid is reasonable.

- *Fringe Benefits Tax (FBT)* – FBT is payable by agencies for private use made of government vehicles. Two methods can be used to calculate FBT and payees are entitled to select the method for each vehicle that minimises their tax. One of the sampled agencies submitted its ‘FBT return’ using the ‘Operational’ method for some of its cars. However, our testing showed that some of these vehicles were lacking properly completed log books that adequately show the extent of business and private use of vehicles.

Redundancy and Redeployment

Overview

Redundancy and redeployment is an integral part of the management of the public sector workforce. Government policy does not allow for the involuntary severance of permanent public sector employees made redundant by restructure. During 2004-05 there were 340 people managed for redeployment or redundancy. This represents 0.5 per cent of permanent public sector workers.

The Public Sector Management Division (PSMD) of the Department of the Premier and Cabinet (DPC) manages the redeployment process. The PSMD also conduct case management for 40 per cent of redeployees. Other employees are case managed by their home agencies.

Key Findings

- The examination found that redeployment and redundancy is adequately managed:
 - audit testing indicated that people in redeployment are gainfully employed and that two-thirds are redeployed within 12 months.
- There are some opportunities for improvement in the management of the small number of long-term redeployees:
 - PSMD has been deregistering redeployees without the legal authority to do so. Once deregistered, such persons no longer receive assistance from PSMD in applying for new positions, and remain the responsibility of their home agencies
 - PSMD has limited ability to effectively manage long-term redeployees with no realistic prospect of redeployment.

What Should Be Done?

- DPC should develop alternative strategies for dealing with long-term redeployees who have no realistic prospect of redeployment to bring closure to the process. DPC should also seek amendment to the Regulations to provide the legal authority to deregister redeployees.

Background

The WA public sector has undergone significant restructuring in the last seven years, especially through the Machinery Of Government process. An inevitable result of this restructuring is the need to provide redeployment or offer severance to permanent public servants whose jobs become redundant.

In June 2004, there were 93 585 full time equivalent public sector employees. Of these, 64 163 were permanently employed. When a permanent public sector position is abolished, the person employed in that position can be transferred within their home agency, redeployed to another agency or offered voluntary severance. A person can only be registered for redeployment if there are no suitable positions available within their home agency and they have reasonable chances for redeployment elsewhere. Severance can only be offered when there is no reasonable chance of redeployment. There is no obligation for a permanent public sector employee to accept severance if it is offered.

Persons who are underperforming in their positions are not eligible for redeployment or voluntary severance. Data on the number of such employees is not collected. Agencies are expected to deal with these people through existing performance management processes.

Under the *Public Sector Management Act 1994* and the *Public Sector (Redeployment and Redundancy) Regulations 1994*, management responsibility for the redeployment process falls to the Public Sector Management Division (PSMD) of the Department of Premier and Cabinet (DPC). Home agencies also provide guidance and assistance to employees.

What Did We Do?

The examination assessed the management of redeployment in WA. This involved reviewing the operational activities of the Public Sector Management Division of the Department of the Premier and Cabinet and selected agencies, with particular focus on:

- management of redeployment and severance
 - oversight by Public Sector Management Division
 - Recruitment Advertising Management System (RAMS)
 - case management at PSMD and a sample of three agencies.
 - gainful employment.

What Did We Find?

Redeployment Activity

A very small number of public sector employees end up in redeployment. During 2004-05 there were 340 people from 46 agencies involved in the redeployment process, equating to 0.5 per cent of the permanent public sector workforce. This figure includes all employees who:

- were registered during the year
- were still registered from before 1 July 2004
- accepted voluntary severance across the year
- were placed in positions with other agencies.

Registration for Redeployment

One hundred and twenty-seven people were registered for redeployment during 2004-05, representing 0.1 per cent of the permanent public sector workforce.

Of the 106 people registered at 30 June 2005, forty-three had been registered for less than six months and 64 less than one year. Fourteen had been in the system more than two years, the longest of whom was registered in 1997. Eight of the 14 had declined an offer of severance.

Eighteen of the 106 registrants were former employees of the Anti Crime Commission (ACC) which was abolished in 2003. All ACC employees were converted from contract to permanent employees immediately prior to its closure. Eleven registrants were former employees of the Egg Marketing Board which ceased in 2004.

Severance

The examination found that PSMD adequately assesses applications from agencies for severance of employees. The applications include a business case covering the severance entitlement of the employee and the redeployment prospects of the employee.

Ninety-two individuals across the sector accepted offers of voluntary severance in 2004-05. Eighteen other applications were rejected by PSMD because of assessed potential for redeployment. Severance can be offered to employees whose positions have been abolished, who are surplus to agency requirements, and are assessed as not having a reasonable chance of redeployment.

Severance payments are controlled by Regulation. Those offered severance receive three weeks' salary per year of service to a maximum of 52 weeks. In addition to this sum, employees also receive payments in lieu of notification of redundancy. Employees are entitled to 12 weeks notification of their position being abolished. Table 1 shows the total severance payouts, excluding leave entitlements.

Number of employees accepting severance	92
Number of agencies involved	20
Severance payout	\$4.36 million
In lieu payment	\$ 680 000
Total payout	\$5.0 million
Average payout	\$54 800

Table 1: Severance paid to government employees in 2004-05

Source: PSMD

Management of Redeployment

PSMD has a rigorous and well documented process for assessing applications for redeployment. Applications for registration are judged on their merits and the appropriate criteria are applied. PSMD and agencies are effectively case managing redeployees in the majority of cases with 66 per cent of people placed within 12 months.

FINANCIAL MANAGEMENT AND CONTROL
Redundancy and Redeployment ... continued

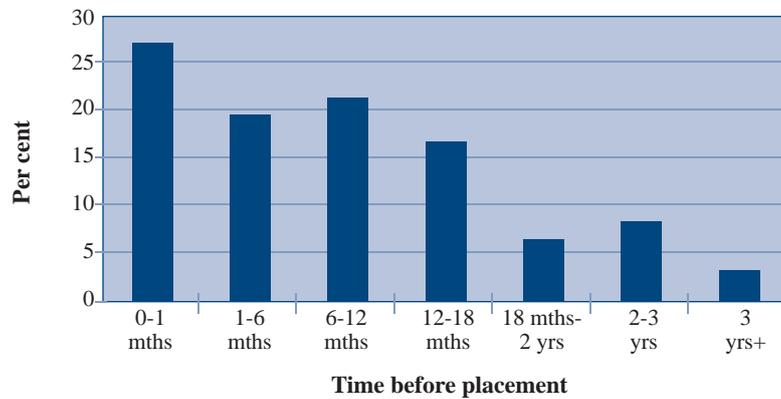


Figure 1: Placement by time

On average it took about 10 months for redeployees to be placed with another agency. Twenty seven per cent were placed within one month of registration. However, 11 per cent of redeployees took more than two years to be placed.

Source: PSMD

However, some opportunities for enhancing policy and practice exist, particularly for long-term redeployees:

- Thirteen per cent of current redeployees have been registered for more than two years. Given the context of effective case management, this inability to achieve placement shows the current lack of options for PSMD to deal with long-term redeployees with no realistic prospect of redeployment. DPC should develop alternative options for dealing with this group of employees to bring closure to the process.
- PSMD does not employ benchmarks for timeliness of placement by which it can measure the success of its policies and practices.
- The PSMD periodically reassess people's eligibility for redeployment and on occasion deregister them. However, we found that the PSMD does not have legal authority to deregister. They have been aware of this since 1996 but have not resolved the issue.

Recruitment Advertising Management System (RAMS)

The central management tool in redeployment is the online Recruitment Advertising Management System (RAMS). This system is designed to manage public sector vacancies, provide the pool of positions available to redeployees, and track individuals through the process of redeployment.

We found that the redeployment aspects of the online RAMS operate well. However, some of its reporting functions could be improved in terms of consistency. These improvements are being sought by PSMD. The identified shortcomings of RAMS do not compromise its usefulness in the placement of individuals in new positions, which is its key purpose.

RAMS is both the tool for registering employees in the process and for managing the process. RAMS provides all case managers with daily updates of newly registered vacancies through automatically-generated emails. All public sector vacancies must be lodged on RAMS. All open vacancies are held in RAMS for redeployment before being cleared for general applications. Exempted positions – those which are not available to redeployees – are also posted via RAMS, allowing PSMD staff to check the validity of the exemptions. Case managers also lodge applications for registration and severance through the RAMS system. All registered individuals and vacancies can be tracked.

Case Management

At present case management is provided either by home agencies or through the Redeployment Unit of PSMD. Each redeployee is case managed to assist them into a new position. PSMD officers manage approximately 40 per cent of redeployees at present. We found that:

- PSMD case managers are experienced and have received specific training in career transition, negotiation and mediation
- employees were provided with personal guidance and instruction
- DPC coordinates workshops on job application skills, interviewing techniques and career change management, which are offered to registered employees.
- Case management at the agencies examined was adequate and agency case managers were provided with appropriate support and guidance by PSMD.

Gainful Employment During Redeployment

We found no evidence to support the popular perception that staff in redeployment are ‘doing nothing’ while drawing their salaries. On the contrary, audit testing indicated that redeployees were given gainful employment with an average of 66 per cent of their time in redeployment in work at other agencies.

FOLLOW-UP PERFORMANCE EXAMINATION

Level Pegging: Managing Mineral Titles in Western Australia

Overview

This report follows up our June 2002 report *Level Pegging: Managing Mineral Titles in Western Australia*. In that examination, we assessed how the (then) Department of Mineral and Petroleum Resources (DMPR) was managing mineral titles. The report made a number of findings and recommendations related to:

- the regulatory and administrative framework for managing mineral titles
- the timeliness and cost of the mineral title application process
- mineral title annual reports
- minimum expenditure conditions.

Shortly after the June 2002 report, DMPR was incorporated into the Department of Industry and Resources (DoIR).

Key Findings

- DoIR has made significant progress in implementing the report recommendations:
 - The backlog of outstanding legislative amendments has been substantially cleared.
 - DoIR has improved recordkeeping practices for mineral titles.
 - DoIR has improved the way mineral title applications are assessed.
 - DoIR has removed opportunities for title applicants to delay the application process.
 - DoIR now initiates forfeiture of all titles when minimum expenditure requirements have not been met and no exemption has been granted.
 - DoIR plans to audit annual expenditure on tenements.
 - DoIR has issued more specific guidelines for assessing expenditure exemption applications.

- A small number of matters still need to be addressed:
 - The time taken to assess mineral title applications has improved, but is still longer than target timeframes.
 - DoIR now monitors mineral exploration reports for compliance, but does not initiate forfeiture for non-compliance.

What Should Be Done?

The Department of Industry and Resources should:

- Build on improvements in assessing mineral title applications by establishing and implementing criteria for assessing exploration licence applicants' work programme and technical and financial resources
- Further improve timeliness of the mineral titles applications process
- Forfeit titles for non-compliance with legislative requirements for mineral exploration reports
- Proceed with current plans to audit annual expenditure on tenements
- Build on the guidelines for granting expenditure exemptions, particularly in relation to exemptions sought in relation to plant and machinery and the ground being unworkable.

FOLLOW-UP PERFORMANCE EXAMINATION

Level Pegging: Managing Mineral Titles in Western Australia ... continued

Background

The Department of Industry and Resources (DoIR) regulates a significant part of the State's economic activity. The WA mining industry reported expenditure of \$539.9 million on exploration activity in 2004 and returned \$652 million in royalties to the State. The 2002 *Level Pegging* examination found that there were considerable opportunities to improve the way the State manages mineral titles. Key recommendations to improve the way mineral titles were managed included:

Regulatory and Administrative Framework

DMPR should:

- actively pursue necessary amendments to the *Mining Act* and ensure that operational procedures are reliably authorised by governing legislation and Departmental policy and governing legislation and are consistently applied
- review recordkeeping practices to ensure completeness and accuracy of records (in particular the tenement files) and compliance with the new *State Records Act 2000* and Departmental recordkeeping policy
- make the creation and validation of mineral title records an integral part of operational procedures
- strengthen the quality controls on its information systems
- include a review of mineral title records as a routine part of the annual internal audit program.

Mineral Title Applications

DMPR should:

- determine an appropriate set of criteria for assessing mineral titles applications and ensure that these criteria are understood, consistently applied, and assessments recorded
- identify and address avoidable delays in the title application process, including initial consideration of titles by Mining Registrars
- minimise opportunities for title applicants to delay or suspend the application process and thereby creating de facto titles

Annual Reporting

DMPR should:

- monitor and enforce compliance with the reporting requirements for both annual operational and technical reports

Minimum Expenditure Conditions

DMPR should:

- initiate procedures to ensure that tenements that do not comply with minimum expenditure requirements and are refused exemptions (and are not the subject of plaintiff action) are made subject to forfeiture
- monitor annual expenditure claims for compliance with allowable expenditure groups and develop systems and guidelines to assess and verify annual expenditure claims
- establish clear guidelines and procedures for assessing expenditure exemption applications

What Did We Do?

In this follow-up examination, we assessed how the key recommendations had been addressed. Our approach included:

- reviewing legislative and policy changes since 2002
- testing mineral title records for compliance with legislation and policy
- analysis of mineral title databases
- consultation with DoIR staff.

This included collaborative fieldwork with the DoIR internal audit team.

What Did We Find?

Regulatory and Administrative Framework

The backlog of outstanding legislative amendments has been substantially cleared

A Mining Industry Liaison Committee (MILC), supported by DoIR, reviews the *Mining Act 1978* on an ongoing basis and makes regular recommendations to amend the Act. This ongoing review maintains the Act's relevance to current industry needs. In 2002, we found that many of the recommended amendments had not been enacted. At the time of this follow-up, the backlog of amendments was substantially cleared. The remaining amendments are currently before Parliament.

In 2002 we also observed that some administrative practices were not authorised by the *Mining Act 1978* or consistently applied. In particular, DMPR was allowing title holders to lodge late annual operational reports (Form 5s) and was not pursuing forfeiture in all cases. The *Mining Regulations 1981* have since been amended to allow DoIR to accept late Form 5s for the purpose of capturing information on tenement operations. DoIR now pursues forfeiture in all cases where Form 5s are submitted outside of the statutory deadline.

DoIR has improved recordkeeping practices for mineral titles

In 2002, we observed that, in many cases, the information contained in Departmental records and management information systems was inconsistent, incomplete and outdated.

DoIR has addressed this problem by:

- introducing a quality management system for mineral title management
- incorporating the creation and validation of mineral title records into operational processes
- implementing a new recordkeeping policy consistent with the *State Records Act 2002*.

In 2002, we also recommended that DMPR review mineral title records as part of its annual internal audit programme. DoIR is currently completing an audit of mineral title management, including records management.

Mineral Title Applications

DoIR has improved the way mineral title applications are assessed

In 2002, we identified a number of opportunities for improving the way mineral title applications were assessed. These included improvements to assessment criteria and documenting decisions. DoIR has addressed these by:

- establishing guidelines for recording decisions to grant or refuse a title
- requiring Mining Registrars and Tenure Officers to confirm that title applications comply with relevant legislation before making recommendations to grant a title.

Examination of a sample of title applications lodged in 2004-05 indicates that officers are complying with these requirements.

DoIR has also established guidelines for applicants regarding the information they should include in exploration licence applications. These guidelines represent an important step in improving the consistency and quality of information provided by applicants regarding their work programme, and technical and financial resources. DoIR now needs to establish clear criteria for assessing this information.

DoIR has advised that they are now developing criteria for assessing this information.

The time taken to assess mineral title applications has improved, but is still longer than target timeframes

In 2002, we observed that mineral title applications were not being assessed within DMPR's target timeframes. Target timeframes for assessing *Mining Act* compliance set by DoIR are shown in Table 1. They do not include the time that it takes to assess title applications under the *Native Title Act*.

FOLLOW-UP PERFORMANCE EXAMINATION

Level Pegging: Managing Mineral Titles in Western Australia ... continued

Type of title application	Target elapsed time from application to assessment of Mining Act compliance	Target percentage of applications
Prospecting Licence	4 months	75%
Exploration Licence	7 months	75%
Mining Lease	7 months	75%

Table 1: Target timeframes for assessing mineral title applications

In 2005, DoIR has improved the time taken to assess applications for compliance with the *Mining Act*, but is still taking longer than target timeframes for Exploration Licences and Prospecting Licences. Seventy-six per cent of Mining Lease applications, 64 per cent of Exploration Licences applications, and 55 per cent of Prospecting Licence applications are processed within target timeframes (See Figure 1).

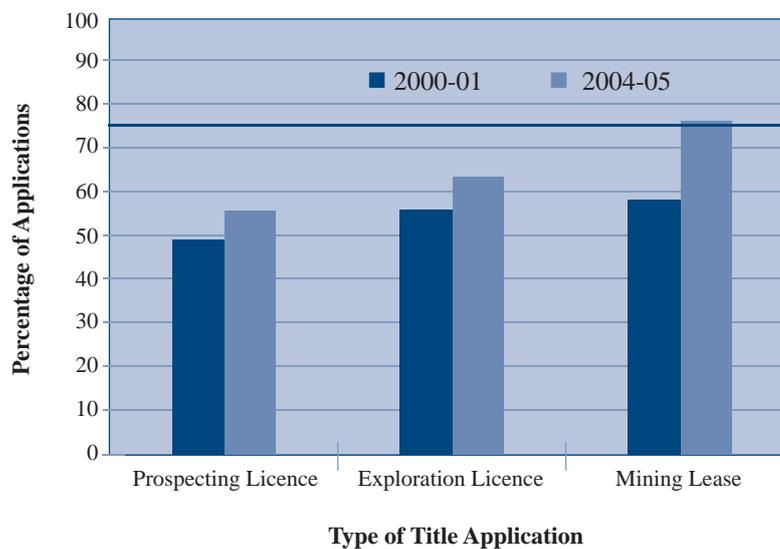


Figure 1: Percentage of title applications assessed for Mining Act compliance within target timeframes (This does not include time taken to complete *Native Title Act* processes.)

DoIR has improved the time taken to assess applications but is still taking longer than target timeframes for Exploration Licences and Prospecting Licences.

DoIR has removed opportunities for title applicants to delay the application process

Outstanding title applications can effectively serve as *de facto* titles, with the effect that applicants cannot develop a tenement, but retain rights to the ground without incurring rental fees or minimum expenditure requirements. In 2002, we observed that title applicants could delay the application process by failing to respond to requests for information required to progress an application. In particular, respondents were failing to answer requests to participate in negotiations under the *Native Title Act 1993*. We recommended that the opportunity for applicants to delay the application process be minimised.

DoIR has responded by recommending that the Minister refuse licence applications in all cases where applicants fail to participate in negotiations under the *Native Title Act*. At the time of this report, DoIR had issued 345 notices of intention to refuse applications. Of these, 78 have been refused.

Annual Reporting

Mineral title holders are required to submit an annual report on the mineral exploration activities on each tenement. These reports, which are commonly called ‘mineral exploration reports’, record all geoscientific activities carried out during the reporting period. They support the claimed expenditure for the tenement and contribute to the public record of mineral exploration and mining activity in the State.

DoIR now monitors mineral exploration reports for compliance, but does not initiate forfeiture for non-compliance

Mineral exploration reports must be submitted within 60 days of the anniversary date for single tenements and on or before the agreed combined reporting date for tenements with combined reporting status. Titles are subject to forfeiture for late lodgement or failure to lodge a mineral exploration report. In 2002, we found that 20 per cent of annual mineral exploration reports were submitted by the due date and 80 per cent received within 12 months of the reporting date. DoIR was not initiating forfeiture of tenements with outstanding annual mineral exploration reports. We recommended that DoIR systematically monitor and enforce compliance with annual mineral exploration reporting.

DoIR records mineral exploration reports electronically. This enables a list of overdue mineral exploration reports to be created each month. Tenements with an overdue

FOLLOW-UP PERFORMANCE EXAMINATION

Level Pegging: Managing Mineral Titles in Western Australia ... continued

mineral exploration report are sent a reminder letter that advises that the tenement could be forfeited if the report is not received promptly. This action is not followed up. If a mineral exploration report is late or not filed, DoIR does not pursue forfeiture. The percentage of late or outstanding reports has increased slightly since 2002. Eighty seven percent of annual reports due in 2004-05 were received late or have not been received.

Mineral exploration reports must also contain sufficient information to enable future independent decisions about the prospectivity of a tenement. Titles are subject to forfeiture for non-compliance with mineral exploration reporting requirements. DoIR provides reporting guidelines to assist title holders to prepare mineral exploration reports.

When DoIR receive mineral exploration reports, they are reviewed for compliance with reporting guidelines. However DoIR currently does not pursue forfeiture when non-compliance is found.

DoIR has advised that it is currently implementing strategies to improve compliance with tenement reporting requirements. These include:

- formalising procedures for granting and monitoring extensions of time for the submission of mineral exploration reports and for initiating forfeiture action
- testing a new electronic database that will enable DoIR to record and monitor extensions of time and identify non-compliance
- an education campaign to remind tenement holders of their reporting responsibilities and the penalties that apply.

Minimum Expenditure Conditions

Holders of certain mineral titles must spend a minimum amount each year on their tenement. These minimum expenditure conditions vary according to the type of title held (for example, prospecting licences, exploration licences, and mining leases have different minimum expenditure requirements) and are intended to ensure that tenements are actively developed and not left idle. Tenement holders who do not meet minimum expenditure conditions forfeit their title, unless they apply for and are granted an exemption. The *Mining Act* sets out reasons for granting expenditure exemptions (See Figure 2).

s102 (2)

- a) Title in dispute;
- b) Time required to evaluate work done/ plan future exploration or mining/ raise capital;
- c) Time to purchase and erect plant and machinery;
- d) Ground unworkable;
- e) Uneconomic mineral deposit;
- f) Mineral deposit for future operations;
- g) Mining prevented or restricted by political or environmental difficulties;
- h) Group expenditure for tenements in a project.

s102 (3)

Any other reason not set out in s102 (2) which the Minister determines is sufficient to justify exemption.

Figure 2: Reasons for granting expenditure exemptions

Source: *Mining Act 1978*

DoIR now initiates forfeiture of all titles when minimum expenditure requirements have not been met and no exemption has been granted

In 2002, we found that 55 per cent of the tenements reviewed did not meet minimum expenditure conditions. This included tenements that had not met minimum expenditure conditions and were refused exemptions, but were still operating.

Following our 2002 report, DoIR now commences forfeiture action against title holders where tenements have not met minimum expenditure requirements and have not been granted an exemption. Current procedural guidelines require DoIR to initiate forfeiture proceedings in all cases where an exemption has been refused. Audit review of a sample of exemption applications lodged between 1 February 2005 and 24 May 2005 confirms that DoIR is complying with this requirement.

FOLLOW-UP PERFORMANCE EXAMINATION

Level Pegging: Managing Mineral Titles in Western Australia ... continued

DoIR plans to audit annual expenditure on tenements

DoIR has also reviewed the way it monitors annual expenditure reports (Form 5s) and intends to conduct random and targeted audits of title holders' expenditure claims. These audits will be conducted to establish that:

- the claims made on the annual tenement reports are valid (ie supported by appropriate documentation)
- the reported expenditure relates to the tenement for which the expenditure is being claimed.

DoIR expects to commence the audits in 2006 following the proclamation of the enabling legislation in late 2005.

DoIR has issued more specific guidelines for assessing expenditure exemption applications

In 2002, we also found that guidelines for applying for and granting expenditure exemptions were not sufficient to ensure that the exemptions process is consistent and equitably applied. We recommended that DoIR establish clear guidelines and procedures for assessing expenditure exemption applications.

Following our 2002 report, DoIR have issued policy guidelines for granting expenditure exemptions. These contain useful information about the criteria for granting exemptions and the supporting documentation that applicants should provide. DoIR could add to the guidelines in relation to s102(2)(c) and s102(2)(d) to ensure that:

- decisions are based only on relevant facts
- reasons are applied consistently
- decision-making criteria and information requirements are communicated to applicants.

DoIR has advised that it will enhance the guidelines as suggested above.

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2004

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– The Regulation of Human Organ and Tissue Removal	
– Computer Anti-Virus Management	
– Internal Audit in Government Agencies	
– Management of Tree Plantations	
– Follow-up Performance Examination: Surrender Arms?	
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2005

Public Sector Performance Report	4 May 2005
– Software Licensing	
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– Management of Leave Liability	
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Follow-up Performance Examination: Implementing and Managing Community Based Sentences	25 May 2005
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– Production, Transport and Disposal of Controlled Waste	
– Regulation of Child Care Services	
– The Personnel and Payroll Processing Function at the Department of Education and Training	
– Follow-up Performance Examination	
Life Matters: Management of Deliberate Self-Harm in Young People	

The above reports can be accessed on the Office of the Auditor General's website at www.audit.wa.gov.au/

On request these reports may be made available in an alternative format for those with visual impairment.