Royalties for Regions – are benefits being realised?

Report 13: June 2014

Background and Objective

Royalties for Regions (RfR) was secured in legislation after the 2008 Western Australian State election. It is an ongoing government initiative that involves 25 per cent of forecasted mining and onshore petroleum royalty revenue each year being set aside for economic, business and social development in regional WA.

The level of government investment in the program is considerable. Between 2008-09 and 2013-14 RfR allocated $4.2 billion to over 3 500 projects across regional WA. Another $1 billion a year in funding has been committed until 2017-18.

It is important that government can demonstrate that funds are being spent on projects that not only benefit regional communities but also meet the long term objectives of the program. The Department of Regional Development (Department) has established six program objectives focused on the impacts and benefits of RfR.

These objectives support the Department's administration of the program and the decision to fund individual projects. Further, they are embedded in the Department's Evaluation Framework which was implemented in 2011 to provide a structured outcomes based approach to funding and evaluating RfR projects and the program. Success of the program will be determined not only on whether projects deliver specific outputs but on whether RfR provides long lasting outcomes to regional communities.

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 if projects are meeting the six objectives and delivering their intended benefits.

Conclusion

The RfR program is providing substantial infrastructure and services projects to regional communities. The Department's focus 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 contributing towards achieving the RfR objectives is unknown. This is 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, 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 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. 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.

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Key Findings (cont)

- Prior to 1 July 2013, the Department did not require projects to demonstrate how they would meet ongoing operational and maintenance costs. We identified 140 projects worth $729.2 million 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 aligned with one or more of the objectives. As well, only half of the project business cases that we reviewed included specific and measurable outcomes.
- The Department evaluates only a selection of projects based on predetermined criteria. 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 intended outcomes had been met.
- 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
- 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.