Queensland Audit Office

Royalties for the regions

Report 4: 2015–16

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The Honourable P Wellington MP
Speaker of the Legislative Assembly
Parliament House
BRISBANE QLD 4000

Dear Mr Speaker

Report to Parliament

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*, and is titled Royalties for the regions.

In accordance with s.67 of the Act, would you please arrange for the report to be tabled in the Legislative Assembly.

Yours sincerely

Andrew Greaves
Auditor-General

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Summary

The Queensland mining sector experienced strong demand for resources over the past decade. This boosted mining investment and employment, mining exports and state revenues from the generated royalties. The increase in mining activity in regional Queensland led to an increase in demand for government infrastructure and services. Councils and industry groups identified that a backlog of infrastructure upgrades in regional Queensland restricted growth. Existing transport, water and energy infrastructure was also under strain.

In 2012, the former government made an election commitment to establish the Royalties for the Regions (R4R) program, with an allocation of $495 million over four years. This was supplemented with an additional $14 million, bringing the total funding to $509 million. The intent was to help those regional communities hosting mining activity. They were to receive genuine long-term royalty benefits through grants to build infrastructure, roads and floodplain security assets. The intent of the government policy was to improve liveability, amenity, resilience and economic sustainability of regional communities.

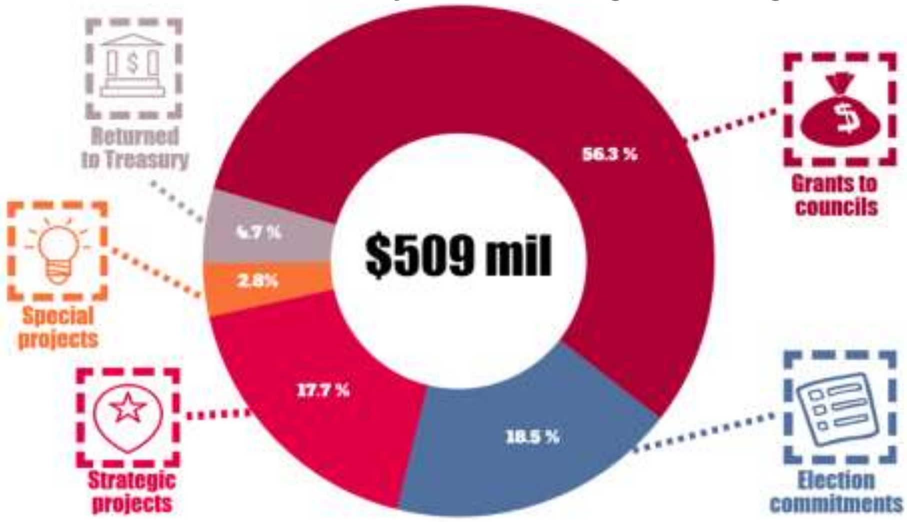
In June 2012, the former Deputy Premier, Minister for State Development, Infrastructure and Planning (the former minister) approved the *Royalties for the Regions Framework*. This framework established grant assessment process for councils and specified that the former minister would approve the infrastructure project proposals in consultation with Cabinet Budget Review Committee. The former Department of State Development, Infrastructure and Planning (DSDIP) was responsible for administering the program in accordance with the approved framework.

DSDIP first set aside $94 million of the $509 million to pay for election commitments. We did not examine these projects as they were outside the grant processes established.

The council grants program was implemented through four funding rounds from 2012–13 to 2014–15. Over these four years, the government expanded the eligibility for these grants from 14 councils in mining regions in year one, to include all councils by year four. Projects in 53 councils received $484.9 million (including the election commitments) and built 151 council and state infrastructure projects through the program.

In 2014, the government opened the program up to state agencies to apply for 'strategic' projects. The government approved $90.2 million in strategic projects. Figure A shows the allocation of the funding.

Figure A
Distribution of Royalties for the Regions funding



Source: Queensland Audit Office

In this audit, we focused our examination on the assessment, approval and allocation of funds under the R4R competitive grants program for councils. We also examined the strategic and other projects funded. Our objective was to determine how effectively and efficiently the funded projects contributed to improving regional community sustainability and resilience, which were the stated aims of the program.

Conclusions

The R4R grant program is delivering much-needed infrastructure to regional communities, and in this respect is fulfilling its aims. However, DSDIP cannot demonstrate the suite of projects funded under this program represented the optimal mix and so, best value for money. The question that remains unanswered is whether investing in other projects with relatively greater merit would have been a better use of scarce public resources.

It was good to observe that DSDIP took lessons from the first pilot round and progressively refined its grant management process over the subsequent funding rounds. The grant assessment criteria it developed also aligned to the program objectives and as such served as a reasonable basis to guide DSDIP in implementing the program.

However, DSDIP did not apply these criteria consistently. It did not always sufficiently assess the eligibility and merits of all applications, nor did it consistently assess the costs and benefits of projects.

The former minister's decisions on the round one applications from councils aligned with DSDIP assessments. For rounds two, three and four his decisions were not always consistent with the DSDIP assessments. He funded council projects that did not align well with his own guidelines. This meant that councils with project proposals that more closely aligned to the guidelines missed out. He also funded strategic projects where no departmental assessment was undertaken; and value for money was not considered.

The inconsistencies between program design and implementation speak to inefficiency and wasted effort. Not only on behalf of the department, but also on behalf of the councils that applied their resources and time to obtaining data and developing submissions, the content of which were partly or entirely ignored. In the final analysis, many unnecessarily invested their time, resources and money to demonstrate the value of their applications against criteria that were apparently irrelevant.

Lack of documentation of the reasons for such decisions means it remains unclear what actual criteria were used to decide which projects were to be funded. A minister is not compelled to accept the advice of their department and is entitled to allocate funds in line with executive authority granted through the Constitution. However, the department had no records of the reasons for funding many projects over much higher rated projects. This absence of documentation reduces transparency and weakens accountability. It also exposes the decision-maker to the potential for accusations of bias or favouritism, which are harder to refute where there is no clear documentary trail.

Allocating funding on the merits of the projects

Achieving the objectives of the program

Regional Queensland councils have built roads, water and community infrastructure with their grants — as at April 2015 councils have spent $79.6 million of R4R grant funding (excluding election commitments). However, in rounds one, two and three, DSDIP did not collect the information needed to demonstrate the long-term economic, development and employment benefits of the upgrades to regional infrastructure.

Government wanted to encourage private sector investment in state infrastructure. DSDIP gave applications that could secure private investment greater priority. Councils obtained private sector commitments to 30 (23 per cent) of the 129 council projects approved. The private sector committed a total of $67.4 million ranging from $50 000 to $22.7 million.

Figure B reconciles the funding committed and allocated during the four years of the R4R program. The government supplemented the original election commitment of $495 million with a further $14 million.

Figure B
Reconciliation of the funds allocated to the R4R program

	Allocations $ millions	Allocations % of total	Balance $ millions
Original commitment	495.0		
- Additional funding	14.0		
Total available			**509.0**
Less funds applied for:			
- Department of Transport and Main Roads for election commitments	94.0	18.5	415.0
- Competitive rounds for councils	286.5	56.3	128.5
- Strategic projects for departments	90.2	17.7	38.3
- Recreational rail trails for councils	3.8	0.7	34.5
- Special projects for DSDIP and councils	13.6	2.7	20.9
- Savings and cancelled council projects	-3.2	-0.6	24.1
Total allocated	**484.9**		
- Returned to Queensland Treasury		4.7	-24.1

Source: Queensland Audit Office

The former minister allocated the funding between the four competitive council rounds, election commitments, strategic projects, rail trails and special projects. In 2014–15, DSDIP returned $24.1 million to Queensland Treasury.

The government designed and publicly promoted the program as a competitive grants program. They gave councils the responsibility to determine their local priorities and submit applications accordingly. However, councils were able to apply for only 56.3 per cent of the funds available. Using 43.7 per cent of the funding on other priorities diluted the value of a competitive grants program for funding regional infrastructure.

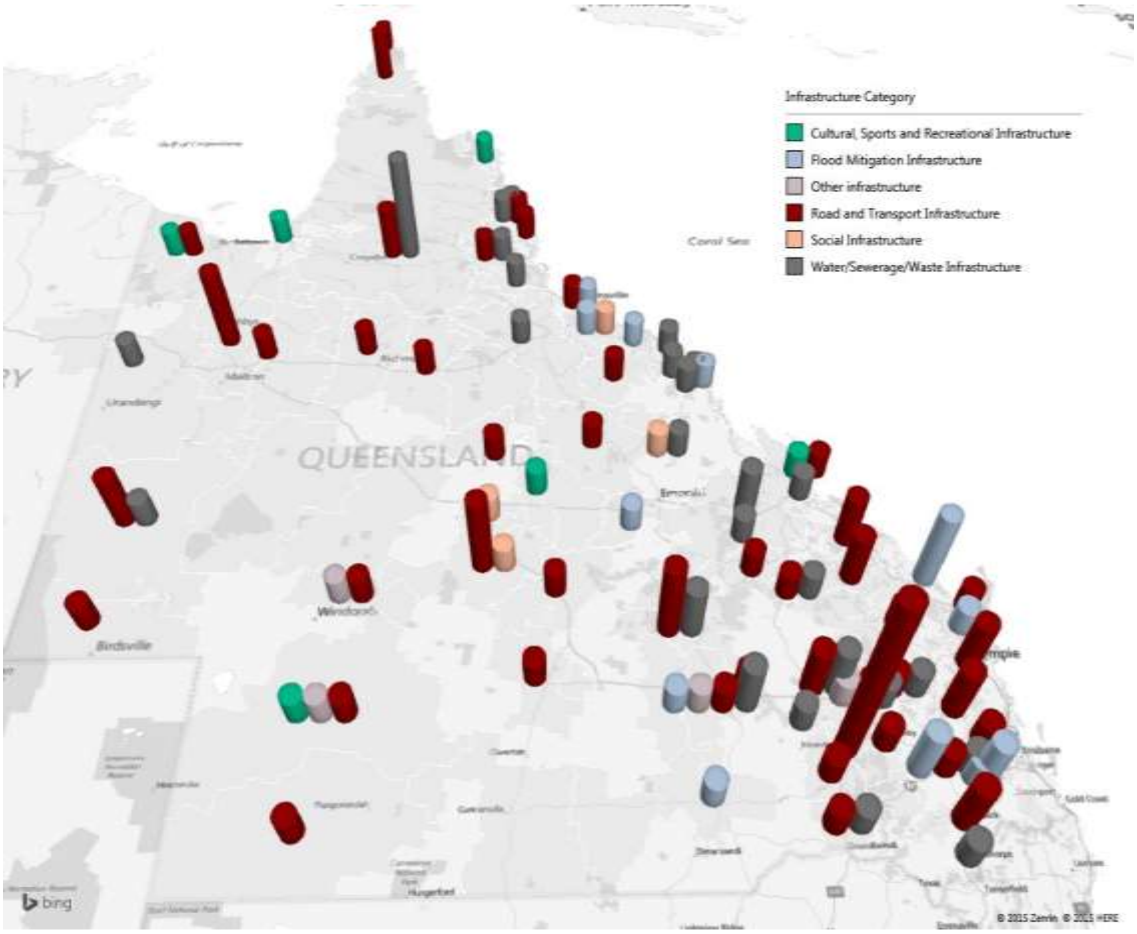
Infrastructure funded by type

The former minister approved a total of 151 projects or activities under the grant program:

- 129 council projects through the four competitive rounds
- six election commitments
- ten strategic projects
- two recreational rail trails
- four other projects, including departmental projects and activities.

Figure C shows the locations of all the projects and activities approved in the six different categories of infrastructure investment. More than half of the projects approved were for transport infrastructure.

Figure C
Infrastructure approved by category



Source: Queensland Audit Office

Equitable allocation of funds based on relative merit

We analysed the former minister's approved list of projects compared to the DSDIP assessed list of projects. DSDIP assessed project applications as being either strong, suitable, or having minimal alignment with the approved guidelines and criteria.

The former minister did not always select projects based on their relative merits as assessed by the department. He funded 14 projects assessed as 'minimal', and one ineligible project. This was his prerogative to do so, but there was no documentation to support or explain the reasons for so doing.

Council size

The former minister advised us that he was concerned that:

> "*Adopting a completely objective and rigid cost-benefit analysis assessment approach would have defeated the purpose of the R4R program as funding would have been entirely taken up by the larger regional cities and smaller communities would have continued to receive no infrastructure funding*."

We analysed the applications submitted, assessed and approved by council size, across all rounds, to see if the funding decisions were consistent with the former minister's concerns for smaller councils.

Our analysis found that large and medium sized councils did submit proportionally more applications than very large or small and indigenous councils. However, applications from small councils do not appear to have been of a lower standard compared to medium, large or very large councils. DSDIP assessed applications from small councils as just as strong or suitable as medium or large councils. All councils, regardless of size, had between 31 to 44 per cent of their applications assessed as minimal and 56 to 69 per cent of their applications assessed as suitable/strong.

Figure D shows the results of our analysis by council size. The analysis does not show that small councils were either favoured or disadvantaged. Small councils made up 42.7 per cent of the councils that applied and received 11.2 per cent of the funding.

Figure D
Funding allocated by size of council

Council size	Number of councils that applied	Percentage of councils that applied by size	Percentage of funding approved
Very large	11	14.7	13.9
Large	18	24.0	41.6
Medium	14	18.7	33.3
Small and Indigenous	32	42.7	11.2
Total	**75**	**100**	**100**

Source: Queensland Audit Office

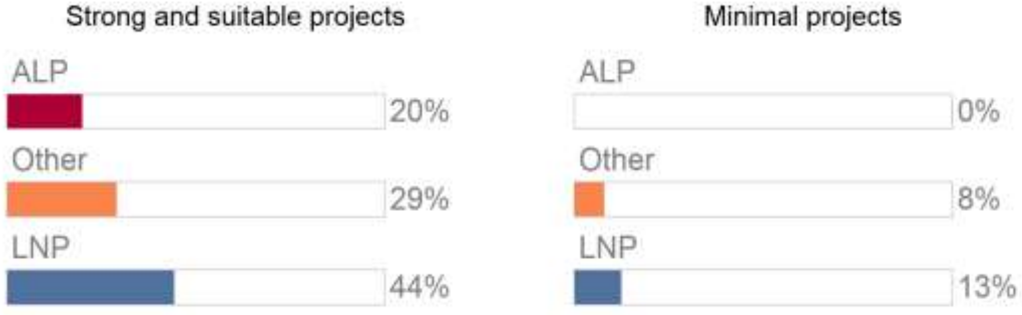
Party electorates

Because of the lack of documentation and the disparity between the departmental assessments and the funding decisions, we analysed in which electorates the R4R funds were invested, to discern whether this was a possible rationale for funding decisions. Our analysis shows that the former minister was more likely to approve projects in government held electorates.

Figure E shows this by summarising the 'success' rates for grant applications:

- Seventy-seven of the 174 'strong' or 'suitable' projects in government held electorates were funded—a conversion rate of 44 per cent.
- In comparison, only two of the 10 projects rated as 'strong' or 'suitable' in other electorates were funded—a conversion rate of 20 per cent.
- Of the 96 projects rated by the department as 'minimal', 12 of those funded (13 per cent) were in government electorates.

Figure E
Conversion rates by political party



Source: Queensland Audit Office

We acknowledge that the Liberal National Party (LNP) held the majority (88 per cent) of the eligible electorates. However, by round four, eleven electorates (12 per cent) covering non-LNP electorates were eligible for funding.

DSDIP documented evidence to support its own assessments, scores and ranking of the council applications. While it kept records of the former minister's decisions, it did not document why the former minister approved projects scored as minimal against the grant criteria over others that scored higher.

There may be valid reasons why the government electorates faired relatively better, but the absence of evidence to support these decisions reduces transparency and serves to weaken this aspect of accountability. It also makes it difficult to defend claims of bias or favour.

The Australian National Audit Office has recently noted the importance of the minister only awarding grant funding after receiving written advice from officials on the merits of proposed grants relative to the program guidelines. The Commonwealth guidelines require ministers to record in writing the basis for approval relative to the grant guidelines and any key considerations of value for money.

Funding projects that were not assessed

The government introduced a new funding category in August 2014. The strategic projects fund was to make funding available to government departments for regional infrastructure projects.

DSDIP developed guidelines and provided them to departments to submit applications. In December 2014, the Property and Infrastructure Cabinet Committee endorsed ten strategic projects worth $90.2 million. However, DSDIP had no opportunity to assess nine of the ten projects against the guidelines. It could not provide any evidence to demonstrate that these projects were value for money or addressed a community need.

The strategic projects may have met the program criteria but without an assessment by DSDIP, they are also open to questions of other influences. They were also all in government held electorates.

Recommending the right projects

DSDIP developed and refined a process to provide advice to the former minister to select the best council applications. However, the former minister did not consistently apply the DSDIP process. A change to the approval process in round three resulted in the former minister approving projects before DSDIP assessed whether they represented value for money.

The grant criteria

DSDIP used clear criteria to evaluate the council applications. However, it did not did apply the eligibility criteria consistently. It made exceptions to the project dollar thresholds for critical projects and for some councils in low rate areas.

The program guidelines stated that eligible projects needed to be between $250 000 to $10 million. DSDIP assessed as eligible, seven projects below the budget threshold of $250 000 and three projects above the budget threshold of $10 million.

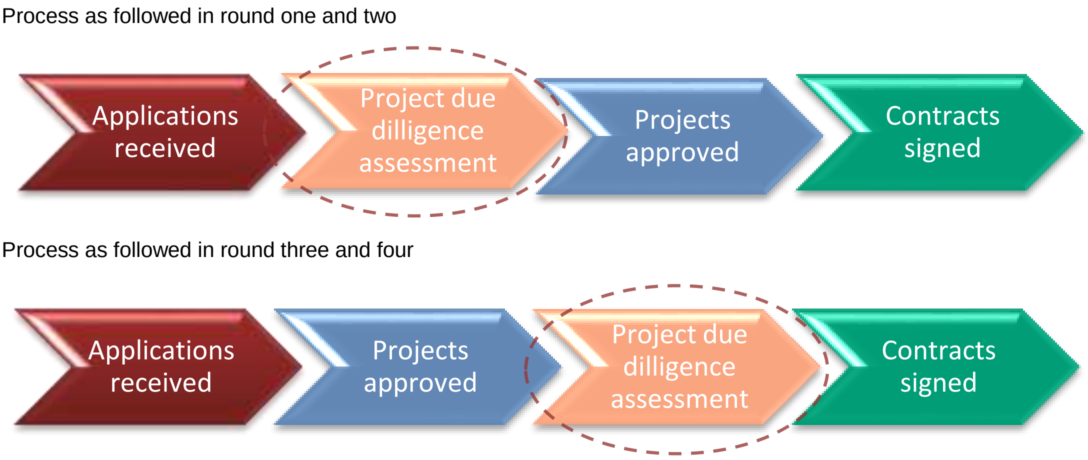
DSDIP did not go back to other councils and advise them that the threshold eligibility criteria had changed from those published. DSDIP did not give councils an opportunity to resubmit applications based on such revised criteria.

Assessing the projects after approving and announcing them

The former minister approved $52 million of round three non-flood projects without first considering their value for money through a cost benefit analysis (CBA) provided by DSDIP. In round three and four, DSDIP conducted their due diligence after the former minister approved and announced projects. They did consider the costs and benefits before sub-agreements were signed. This has the potential to influence, or be seen to influence, the assessment work and subsequent advice as to whether funding should be approved.

Although the round three and four projects had already been approved, DSDIP assessed net economic benefit as part of the due diligence of the applications. It considered the adequacy of assumptions made and revised the net economic benefit of a project where necessary. DSDIP assessed whether the project would deliver value for money, based on the project plan and CBA. DSDIP used this process as a way to identify risks and issues to incorporate into grant funding sub-agreements, rather than as a way of deciding which projects to fund based on value for money.

Figure F
Process map of grant applications



Source: Queensland Audit Office

The Building our Regions program

The department has reported to us that they have taken the learnings from the R4R program into account when designing the processes and systems to manage the Building our Regions Program. These processes or systems were not within the scope of this audit.

Recommendations

We recommend that the Department of State Development:

1. use a two stage process—expression of interest, then detailed assessment to ensure:

   a) councils only have to invest in developing business cases and detailed plans when they are successful in the expression of interest stage

   b) the grant assessors assess application eligibility first—then only assess eligible applications against the remaining grant assessment criteria. This will allow them to focus on the detailed assessment at the business case stage.

2. advise councils if the guidelines change after they are published and give councils an opportunity to re-submit applications based on the revised criteria
3. assess the cost benefit analysis of applications prior to approval and announcement of projects. And rigorously check that the figures and assumptions show the project is viable. This should include an emphasis on councils' ability to fund the operating costs and on-going maintenance
4. engage independent expertise on an as needs basis to give clear advice to decision-makers to inform the ranking of applications in terms of the grant criteria and program objectives
5. collect information from councils on both qualitative and quantitative benefits in project evaluation reports.

We recommend that Queensland Treasury revise advice to grant decision-makers to:

6. require decision-makers to demonstrate clearly that grant decisions are equitable, transparent and represent value for money. This includes recording the criteria on which their decisions were based and the reasons for the decisions. In particular, when they approve lower ranked applications over higher ranked applications.

Reference to comments

In accordance with s.64 of the *Auditor-General Act 2009*, we provided a copy of this report with a request for comments to:

- the member for Callide (the former minister)
- the Minister for State Development and Minister for Natural Resources and Mines, and the Department of State Development
- the Department of State Development
- the Treasurer, Minister for Employment and Industrial Relations and Minister for Aboriginal and Torres Strait Islander Partnerships
- Queensland Treasury.

We considered and represented their views to the extent relevant and warranted in reaching our audit conclusions. The comments received are included in Appendix A of this report.

In the interests of transparency, copies of correspondence between the member for Callide and the Queensland Audit Office, regarding a preliminary draft of this report are included in Appendices F and G. The member for Callide did not submit any further comments on the report.

1. Context

Queensland royalty revenue

Queensland owns petroleum and gas reserves and most minerals, and grants licenses to operators to extract these resources. In exchange, license holders pay royalties to the Office of State Revenue. In 2014, the state collected $2.3 billion in royalty revenue. Figure 1A shows, by groupings of statistical divisions, the source of royalty revenues.

Figure 1A
Sources of Queensland Royalties, percentage

Statistical division group	Percentage of total royalties
Brisbane, Gold Coast, West Moreton & Darling Downs	2.19%
Central West & North West	8.91%
Far North	3.73%
Fitzroy	28.18%
Mackay	51.63%
Northern	0.64%
South West	3.93%
Wide Bay-Burnett	0.79%

Source: Queensland Audit Office – Extract from the Office of State Revenue

Royalties for the Regions program

In 2012, the former government implemented its election commitment to invest in regional communities affected by mining activity. It announced the Royalties for the Regions (R4R) program to invest $495 million in regional community infrastructure, roads and floodplain security projects.

R4R was a competitive grants program. A 'grant' is a generic term applied to funding or other incentives provided to individuals or bodies. Appendix E lists some different types of grants including examples of current programs.

Program objectives

The program rationale was that regional communities should receive real, long-term benefits from royalties' revenues through better planning and infrastructure investment. It was not an objective of the program that the government award funding to locations in proportion to where mining generates royalties' revenue.

The program's objectives changed from round one (the pilot round) through to round four, but the broad aims remained unchanged—to build community capacity and economic sustainability through:

- infrastructure which improves the liveability and amenity of regional communities, making places more attractive in which to live and work
- the economic development and resilience of regional communities
- development consistent with Queensland regional economic or planning priorities
- increase in private sector investment into resource communities
- greater coherence of public and private sector investment to benefit Queenslanders.

Figure 1B shows the construction of a replacement bridge. The $1.5 million project will replace the existing timber Cannindah Road/Splinters Creek Bridge with reinforced concrete box culverts to improve road safety and provide access to B-Doubles. Use of the bridge has increased over the last seven years with the mining activity in the region. An increase in heavy freight has caused deterioration and safety concerns.

Figure 1B
An example of an upgrade to regional infrastructure

Source: Queensland Audit Office

Program roles and responsibilities

The responsible minister

In June 2012, the former Deputy Premier, Minister for State Development, Infrastructure and Planning (the former minister) approved the *Royalties for the Regions Framework*.

This framework established how the department would assess the grants. It specified that the minister would approve the infrastructure project proposals in consultation with the Cabinet Budget Review Committee.

The government approved a revised framework in May 2013 to take account of lessons learnt from the first round of grant funding, but the purpose of the program remained unchanged. This confirmed it would base its funding decisions on the relative merit and priority of projects.

The Department of State Development

The Department of State Development (DSD) was formerly the Department of State Development, Infrastructure and Planning (DSDIP).

Before the 2015 machinery of government changes, DSDIP brought together the functions of the Coordinator-General, economic and regional development, major project delivery, government property management, infrastructure and planning.

DSDIP was the department responsible overall for administering the R4R program. It fulfilled these responsibilities in collaboration with the then Department of Local Government, Community Recovery and Resilience and the Department of Transport and Main Roads (DTMR).

Within DSDIP, the Economic and Regional Development Directorate (ERDD) designed, planned, delivered and reviewed the program. Various staff within ERDD, together with staff in the Regional, Economic and Commercial Analysis section of DSDIP, assisted with the program.

DSDIP staff signed and managed the financial agreements for the community, flood and other infrastructure projects (excluding road projects). Its internal auditors were involved in two reviews of the program.

Department of Infrastructure, Local Government and Planning

The Department of Infrastructure, Local Government and Planning (DILGP) was formerly the Department of Local Government, Community Recovery and Resilience (DLGCRR).

The department's purpose is to support and promote the autonomy, authority and accountability of local governments and to lead community recovery projects that support Queenslanders' resilience to future natural disasters.

DLGCRR officers provided advice in relation to projects and the grant program as a whole. They contributed to project assessments when they had any information relating to the council or the project to assist DSDIP in the assessment of projects.

In rounds two and three of the program, DLGCRR led a joint application process for disaster mitigation and resilience funding to Queensland communities. This streamlined the process of assessing applications for three funding sources:

- R4R
- Local Government Floods Response subsidy
- Natural Disaster Resilience program.

A total of $10 million from R4R was initially available per round for these flood projects.

R4R funded these projects, while the DLGCRR disbursed project funds, except for roads projects. DSDIP provided funding for roads directly to DTMR, which managed those projects and provided update reports back to DSDIP.

Department of Transport and Main Roads

The Department of Transport and Main Roads (DTMR) plans, manages and delivers Queensland's integrated transport environment to achieve sustainable transport solutions for road, rail, air and sea.

The *Transport Infrastructure Act 1994* requires the Chief Executive to develop, for the minister's approval, transport infrastructure strategies to give effect to the coordination plan for transport infrastructure in accordance with the objectives of that Act.

DTMR also assisted with the assessment of the R4R projects by providing technical advice on road infrastructure projects. It is also managing the road projects.

Legislation and policy frameworks for administering grants

Because Queensland Government grant programs use public money, the grant providers are accountable for the funds they allocate and the grant recipients are accountable for their use.

The departmental staff involved in the process must meet various legal requirements set down in the *Financial Accountability Act 2009*, the *Financial and Performance Management Standard 2009* (the Standard) and other applicable legislation.

Where the process involves the relevant minister making decisions, the *Ministerial Code of Conduct* sets out important principles and requirements. During the time of the program, ministers were also subject to the *Protocols for communication between ministerial staff members and public service employees* issued by the Premier.

Financial accountability for the use of public funds

The *Financial Accountability Act 2009* requires that accountable officers achieve reasonable value for money by ensuring departments carry out their operations efficiently, effectively and economically.

The *Financial Accountability Handbook* (the handbook) assists accountable officers and statutory bodies to discharge their obligations under the *Financial Accountability Act 2009*, the standard, and the *Financial Accountability Regulation 2009*.

Volume 6 of the handbook outlines the whole-of-government approach to grant program development and administration, while maintaining some flexibility to suit individual agencies' specific grant program requirements.

The handbook specifies requirements for grant program design, program administration and evaluation and analysis. It also refers agencies to the Australian National Audit Office guidelines *Better Practice Grants Administration, 2010*.

The Ministerial Code of Conduct

The Ministerial Code of Conduct sets out the obligations for Ministers from the *Code of Ethical Standards of the Legislative Assembly of Queensland*. It also requires ministers to observe the ethics values in the *Public Sector Ethics Act 1994* where relevant.

Protocols for communication between ministerial staff members and public service employees

The previous government put in place the *Protocols for communication between ministerial staff members and public service employees*. The protocols are no longer current, but were at the time. Section 4 of the protocols includes some relevant requirements and principles for R4R. They are:

- Queensland Government operates as a system of responsible government. Governments are responsible collectively to the community through the electoral process and are supported by an independent public service.
- Ministers are responsible individually to Parliament for the administration of their portfolios.
- Directors-General are responsible for the delivery of their departments’ services and are accountable ultimately to the Premier, although they report to their responsible minister on a day-to-day basis. Departments are responsible for giving independent and apolitical advice to assist the government and the minister with decision-making.
- Subject to legislative provision to the contrary, ministers may direct Directors-General in relation to administering their portfolios, and may direct a department to act in a manner that is contrary to its own advice.
- A minister’s power to give direction to a director-general does not include the power to compel the Director-General to give particular advice or to change departmental advice.

Managing grants

Volume 6 of the government's Financial Accountability Handbook (FAH) outlines three major elements that together comprise the framework for managing government grants; design, administration and evaluation.

Design phase

The design phase includes consideration and approval of the program eligibility and assessment criteria.

Eligibility criteria

More councils became eligible to apply for grants over the four rounds. The first pilot funding round was limited to 14 councils. The government and industry stakeholders identified these councils as the most acutely affected by mining growth pressures.

DSDIP invited all local governments in regional Queensland outside South East Queensland (but still including Toowoomba) to participate in the later three rounds. In rounds two and three the Lockyer Valley was included for flood mitigation. In round four all councils were eligible to apply. The rationale was that many Queensland regions support resource activity, thereby contributing to the state's royalty revenue generation.

Assessment criteria

DSDIP developed, updated and published grant assessment criteria in the program guidelines it issued to councils before opening each of the four competitive rounds. It also revised other elements in the guidelines every round.

In all rounds, there were either separate or combined guidelines for different types of infrastructure (flood, roads and community). Criteria included value for money, readiness and benefits.

While each round used slightly different wording and different sub-criteria, criteria in all rounds addressed five common themes. Councils had to show they were:

- addressing a local, regional or statewide need
- delivering community benefits and improved infrastructure
- building and operating the asset in a financially sound way
- aligning with state, regional economic or planning priorities
- consulting with the regional and local community.

In round four, DSDIP changed the first criterion to incorporate alignment with the newly developed RegionsQ strategy.

RegionsQ was a high level infrastructure strategy that identified nine projects or areas with regional significance that would accelerate regional economic and jobs growth.

Administration phase

The four generic processes outlined in the FAH for the grant administration phase are:

- applying
- appraising
- funding and payment
- monitoring and acquitting.

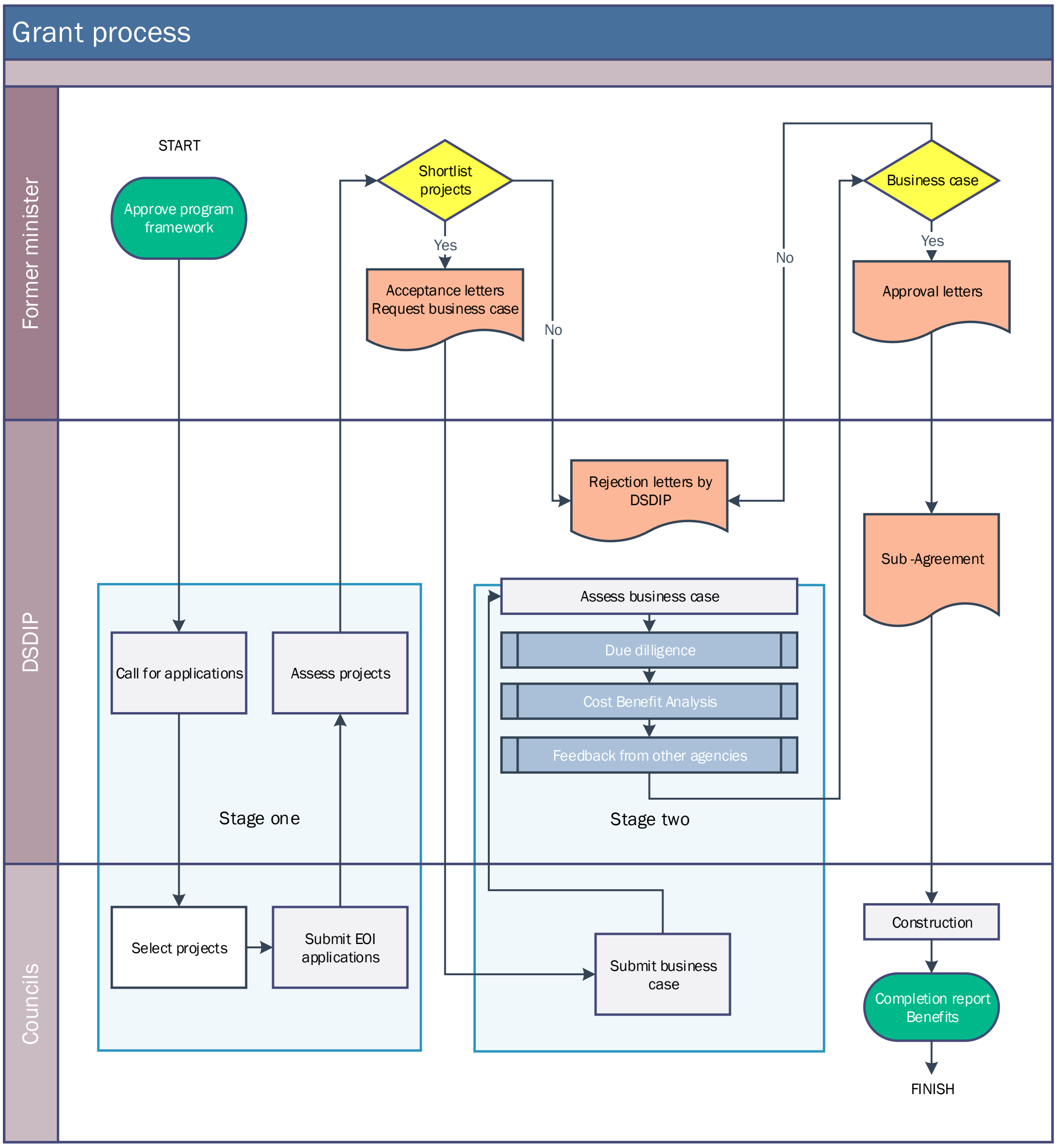
Application and appraisal processes

DSDIP developed its application process in close consultation with industry groups.

Figure 1C shows the two-stage grant assessment process that DSDIP designed at the start of the program. In this two-stage process, applicants first submit an expression of interest (EOI). The EOI is a high level document addressing the eligibility criteria and an estimate of the project costs, benefits, timeframes and risks.

DSDIP assesses the EOIs and only successful applicants submit detailed business cases, project plans and a cost benefit analysis (CBA). This reduces the burden on unsuccessful councils, as they do not need to invest in detailed project planning unless their EOI is shortlisted. In stage two, DISDIP re-assessed, ranked and recommended or rejected those projects with viable business cases appropriately.

Figure 1C
Royalties for the Regions—two stage grant funding process



Source: Queensland Audit Office

Evaluation phase

DSDIP evaluated the pilot funding round and, based on feedback from program stakeholders, made a number of changes to the framework. The main changes were:

- expanding eligibility to all local governments in regional Queensland outside South East Queensland (including Toowoomba)
- removing the funding pre-allocations across types of infrastructure by merging them into one fund
- giving higher priority to projects where there are industry contributions
- requiring less detail in the EOI and focusing on project eligibility and strategic merit. At the business case stage, applicants with shortlisted projects need to provide detailed project information addressing the deliverability of the project, risk and the financial case.

DSDIP planned to evaluate the program benefits in round four. At the time of the audit this had not occurred.

Program funding

The original commitment for the program was for $495 million, $94.0 million was promised on election commitments. The government changed the allocation of the funding over the life of the program.

Figure 1D shows how the government originally allocated the R4R funding. The main changes were allocating:

- $90.2 million on strategic projects in round four
- $3.8 million on recreational rail trails
- $13.6 million on special projects.

Election commitments

Figure 1D shows that initially $495 million was to be allocated to eligible councils across three funds over four financial years from 2012–13 to 2015–16.

Figure 1D
Original funding allocations

Fund	2012–13 $ million	2013–14 $ million	2014–15 $ million	2015–16 $ million	Total $ million
Roads to Resources Fund	40.0	65.0	80.0	100.0	**285.0**
Resource Community Building Fund	10.0	20.0	40.0	100.0	**170.0**
Floodplain Security Fund	10.0	10.0	10.0	10.0	**40.0**
Total	**60.0**	**95.0**	**130.0**	**210.0**	**495.0**

Source: Framework for Implementing Royalties for Regions, Department of State Development, Infrastructure and Planning

Over three years, 2013–14, 2014–15 and 2015–16 the government reallocated to DTMR $94 million of the $285 million identified for funding councils to undertake local road projects. Figure 1E shows the proposed timing of these transfers and their effect on the funds available to allocate to councils for roads.

Figure 1E
Revised funding allocations: road infrastructure

Road to Resources Fund	2012–13 $ million	2013–14 $ million	2014–15 $ million	2015–16 $ million	Total $ million
Original road funds available to councils	40.0	65.0	80.0	100.0	**285.0**
Less: funds transfers to DTMR		46.3	27.7	20.0	**94.0**
Revised road funds available	**40.0**	**18.7**	**52.3**	**80.0**	**191.0**

Source: Revised Royalties for Regions Framework, Department of State Development, Infrastructure and Planning

DTMR applied the funding to projects announced as election commitments. These projects were not part of the council grants. The reallocations to DTMR meant that there was only $401 million left in total program funds to allocate to councils over the four years through a competitive grants process.

Figure 1F summarises the projects DTMR applied funds to transport infrastructure. These were election commitments of the incoming government, and were not subject to the competitive grant process.

Figure 1F
DTMR funding allocations: road infrastructure

Location	Project	Cost $ million
Toowoomba	Outer Circulating Road Project—Victoria Street Extension	45.0
	West Creek Railway Bridge	5.0
Townsville	Blakey's Crossing	24.0
	Woolcock and Mather Street Intersection Upgrade	10.0
South Burnett	D'Aguilar Highway Upgrade	5.3
Somerset	Brisbane Valley Highway Upgrade	4.7
	Total	**94.0**

Source: Department of State Development, Infrastructure and Planning, grant management system

DSDIP were to administer the grant process across a number of funding rounds, with the first round of grants in 2012–13, totalling $60 million, treated as a pilot.

After the pilot round, the government stopped distinguishing between the three funds, thereby removing the separate sub-program fund limits, to allow greater flexibility in allocating grants.

Strategic projects

In 2014, the government opened the program up to state agencies to apply for strategic projects. The government approved $90.2 million in strategic projects. The former minister approved $67.4 million in council applications. Figure 1G shows how round four funding was allocated between council applications and government department projects in regional Queensland.

Figure 1G
Revised funding allocations: round four

Round four funding	2014–15 $ million	2014–15 %
Funding to councils	67.4	42.8
Strategic projects to state departments	90.2	57.2
Total	**157.6**	**100**

Source: Department of State Development, Infrastructure and Planning, budget report

Rail trail and special projects

There were seven special projects or activities approved and funded with the R4R money totalling $17.4 million. Councils did not submit applications for these projects or activities and they did not go through the same assessment process. Figure 1H lists the special projects funded with R4R money.

Figure 1H
Rail trail and special projects funding allocations

Special projects	$ million	%
Rail Trail projects	3.8	21.8
Alpha Medical Centre	10.0	57.5
Mary Valley Rattler	0.6	3.4
RegionsQ Showcase	1.0	5.8
Bimonthly newsletter	0.5	2.9
Additional Funding Yeppoon Foreshore project	1.5	8.6
Total	**17.4**	**100**

Source: Department of State Development, Infrastructure and Planning, budget report

Audit objective and cost

The objective of the audit was to assess the effectiveness of the R4R program in contributing to regional economic sustainability and resilience.

The audit focused on whether the government followed the grant eligibility and funding criteria in allocating the funds to councils. We did not examine the funds reallocated by the government to DTMR as part of the election commitments.

The audit also examined the departmental grant administration processes supporting the funding allocation decisions for their conformance with the requirements of the Financial Accountability Act and the Financial Administration Handbook, and their efficiency and effectiveness.

The audit cost $395 000.

Report structure

The remainder of the report structure is as follows.

Chapter	Description
Chapter 2	Assesses how the grants were administered for compliance and efficacy
Chapter 3	Analyses how the grants were awarded
Appendix A	Contains responses received on this report
Appendix B	Lists the distribution of funding to councils
Appendix C	Lists the regional benefits achieved
Appendix D	Lists the program guidelines
Appendix E	Lists different types of grants
Appendix F	Contains responses from the former minister on the preliminary report to Parliament
Appendix G	Includes the QAO's response to the former minister's response on the preliminary report to Parliament
Appendix H	Outlines the audit method

2. Administering the grants

In brief

Councils submitted 373 eligible applications (excluding joint flood applications) to the Department of State Development, Infrastructure and Planning (DSDIP) asking for $1.2 billion to upgrade regional infrastructure. The available grant funds were less than half of that. DSDIP evaluated and ranked grant applications against a published set of criteria and provided it to the former minister. This ranking:

- allowed the limited funding to go to the highest scoring projects that best met the criteria
- provided clarity to those applying for grants as the basis of approval.

Conclusions

DSDIP designed the program well to deliver improved regional infrastructure and stimulate regional economies—the grant criteria were clear and unambiguous to councils and grant guidance was continuously improved. But DSDIP did not consistently assess the applications in terms of eligibility, alignment to regional plans and value for money.

DSDIP did not rigorously assess or recommend the applications on a value for money basis. It failed to assess value for money consistently before paying out funds. In round one, it paid out $52.8 million without assessing value for money at all. In round three DSDIP assessed value for money after the former minister approved projects as he truncated the assessment process from a two stage to a one stage process.

DSDIPs assessments did not clearly recommend to the former minister the projects to allocate the limited funding to deliver the most value. These weaknesses have resulted in low confidence that the projects selected for funding are the most appropriate and represent the best value for money for the state.

Findings

- The guidelines and criteria were specific and unambiguous to applicants and DSDIP progressively improved the supporting templates over the four rounds.
- In the pilot round of the program, DSDIP did not collect the information needed to assess value for money for $52.8 million of projects. The guidance to councils to provide the information in the successive rounds did improve.
- DSDIP incorrectly assessed 19 ineligible projects worth $68.2 million that the former minister approved.
- In round three and four, DSDIP conducted due diligence assessments after the former minister had approved the projects. DSDIP improved the way it assessed and prioritised the applications over the life of the program.

Recommendations

We recommend that the Department of State Development (DSD):

1. use a two stage process—expression of interest, then detailed assessment
    a) councils only have to invest in developing business cases and detailed plans when they are successful in the expression of interest stage
    b) the grant assessors assess application eligibility first—then only assess eligible applications against the remaining grant assessment criteria. This will allow them to focus on the detailed assessment at the business case stage
2. advise councils if the guidelines change after they are published
3. assess the cost benefit analysis of applications prior to approval and announcement of projects
4. engage independent expertise on an as needs basis to give clear advice to decision-makers to inform the ranking of applications in terms of the grant criteria and program objectives.

Introduction

A well managed grant program results in the selection of those projects that best represent value for money to achieve the program's objectives. The process should be transparent to ensure equity among those competing for funding approval.

We expected the department to provide full and frank information regarding the merits of the proposed grants against the assessment criteria to the decision-maker.

This chapter looks at how well the Department of State Development, Infrastructure and Planning (DSDIP) administered the grants, including how it managed changes to the processes over the four rounds. Here we examine how DSDIP:

- designed the program
  - developed the guidelines and grant criteria
  - developed templates for councils to identify cost benefits
- administered the applications
  - applied the eligibility criteria
  - managed the change from a two stage to a one stage assessment process
  - assessed value for money
  - considered local, state and national infrastructure plans (for example RegionsQ)
- provided advice to the former minister.

Conclusions

DSDIP effectively designed the program based on grant better practices and trialled it through round one as a pilot. Taking the learnings from the pilot, it improved the process and in particular the guidance for assessing value for money.

However, DSDIP had significant weaknesses in the way it administered the competitive funding rounds of the program. It did not manage a fair and completely transparent grant assessment and approval process. It failed to recommend the most appropriate projects to the former minister that could deliver the most value to regional economies.

The department's assessment approach changed over the four rounds and not always for the better. By round four 11 per cent of the projects funded were not assessed at all. DSDIP cannot be sure that the projects funded under the Royalties for the Regions (R4R) program will deliver the economic benefits expected of the program.

Designing the program

There were two main elements to the design of the program. The framework itself that set out the principles and processes for the program, and information to help councils submit their applications, forms and templates.

Developing guidelines for councils to apply for grants

We expected to find guidelines that aligned with the requirements of the Queensland Accountability Handbook (the handbook) and which specifically:

- made it clear to councils what information they needed to include in the application forms
- allowed DSDIP to score and rank (prioritise) the applications on their relative merit in delivering value.

DSDIP developed and published the guidelines before opening each of the four competitive rounds. In all the rounds, there were either separate or combined guidelines for the different types of infrastructure (flood, roads and community). The guidelines included the program criteria that DSDIP would assess the applications against.

The guidelines were comprehensive, complete and easy to follow. The application forms and templates for councils to complete were consistent and straightforward. In some cases, DSDIP improved the initial templates as the rounds progressed, in particular the templates to identify costs and benefits.

The published program criteria were specific and unambiguous and therefore met the requirements of the handbook. The criteria included value for money, readiness and benefits.

Feedback from councils showed that they understood the guidelines and criteria. They were generally satisfied with the application process.

Helping councils identify cost and benefits

A cost benefit analysis (CBA) is a widely accepted tool to assess value for money. State entities are required to have a CBA for all projects above $100 million under the *Project Assessment Framework*. Most councils also have policies requiring a CBA for major capital projects below $100 million.

In the pilot round of the program, DSDIP did not require councils to submit to a CBA as part of the business case and therefore did not assess value for money before paying out $52.8 million in grant funds.

DSDIP provided a CBA template and guidance to councils as part of the application materials for rounds two onwards. Councils were required to provide information about costs and benefits so DSDIP could assess the value for money of proposed projects. Councils were required to:

- set the asset lifespan to 25 years
- explain each of the costs and benefits
- separate cost items into capital, operating and financing cost categories
- provide examples of intangible benefits.

In round four DSDIP improved the guidelines by providing more guidance on the assumptions to use in the CBA, for example identifying how many local jobs the projects would create. It provided more examples of intangible benefits councils could use to support the value of their projects. The list of example benefits included:

- improved community satisfaction (number of families and/or population assisted by the project)
- local jobs likely to be supported by the project
- business confidence and satisfaction (number of industry or businesses expected to benefit from the project)
- impacts on community health (discuss likely number of people who are likely to benefit from the project)
- impacts on agricultural land (hectares of land saved and production sustained)
- decreased risk of accidents (number of accidents likely to be avoided)
- improved flow and volume of goods transported after the project.
- savings in travel time and vehicle maintenance
- other intangible benefits.

Administering the applications

This section looks at how DSDIP administered the applications from the councils. The main steps were:

- ranking the applications from councils against the criteria in the guidelines
- assessing value for money of the projects
- checking alignment with local, regional and state infrastructure planning priorities
- advising the former minister of the results of the assessments to inform his decisions.

Assessing eligibility

The R4R program guidelines had clear eligibility criteria, as per the *Financial Accountability Handbook*. To be eligible for funding, projects had to meet:

- Budget limits—eligible projects needed to be between $250 000 to $10 million.
- Timeframe requirements—eligible projects had to be 'shovel ready' (ready to commence within six months of signing the funding agreement).
- Land ownership conditions—eligible projects had to be on publicly owned land.

DSDIP did not strictly enforce the eligibility limits and provided ineligible projects to the former minister to fund. DSDIP assessed 19 projects as eligible despite being over or under the budget limits, not shovel ready or containing unresolved land ownership restrictions.

Exceptions to the budget eligibility criteria

Why the guidelines included the budget limits on funding was not clear. DSDIP made exceptions for critical projects or for councils with low or no base rates. These exceptions were not transparent to all applicants.

DSDIP approved seven projects below the budget threshold of $250 000 and three projects above the budget threshold of $10 million, as shown in Figure 2A.

Figure 2A
Projects funded below or above the Royalties for the Regions threshold

Council	Project Description	R4R Funding Approved
	Below $250 000	
Kowanyama Aboriginal Shire	Kowanyama Essential Services—Sewerage upgrades	$188 841
Kowanyama Aboriginal Shire	Kowanyama Essential Services—Refuse Tip	$91 510
Blackall-Tambo Regional	Blackall Airport Lighting Project	$121 415
Barcoo Shire	Jundah Airstrip Fencing	$140 000
Boulia Shire	Water Capital Works Infrastructure Upgrade	$184 000
Burke Shire	Burketown Wharf —Pontoon Project	$180 000
Bulloo Shire	Thargomindah Aerodrome Runway Lighting System Upgrade	$149 500
	Above $10 million	
North Burnett Regional	Monto-Mt Perry Road Upgrade Project—Bundaberg	$15 mil.
Gladstone Regional	Kin Kora Roundabout Upgrade—Gladstone	$12.7 mil.
Livingstone Shire	Northern Strategic Link Road—Panorama Drive (Yeppoon Western Bypass Stage 2)	$15 mil.
Total		**$43.8 mil.**

Source: Queensland Audit Office

Exceptions to the 'shovel ready' eligibility criteria

Projects had to be ready to start within six months from signing the funding agreement. This was to ensure the program stimulated the economy and delivered jobs quickly.

As at April 2015, councils signed 91 contracts. Of these, nine projects (worth $24.4 million) were not ready to commence construction within six months after signing the agreements. Councils reported project delays due to land use issues, finalising tender documents and project scope and dependencies.

Linking the 'shovel ready' criteria to six months from the date of signing the funding agreement meant that the department had to predict at the time of the assessment when the agreement would be signed and whether there would be any delays. We acknowledge this is a difficult task, as many projects require the acquisition of land. However, as this criterion was set in the published guidelines, we expected DSDIP to collect sufficient evidence to assess projects against this eligibility requirement.

Exceptions to the land ownership eligibility conditions

The program guidelines (excluding flood) specified that works constructed on non-council or non-government owned land or controlled land were ineligible. Councils had to indicate on the application form if there were any land ownership issues. However, DSDIP assessed and recommended seven projects worth $63.3 million for approval that were on freehold land.

Figure 2B is a case study of a project that was not eligible for funding under the guidelines but DSDIP put it up for approval to the minister over other eligible projects. The project itself may have merit and contribute to economic development but funding it from the R4R program:

- reduces the funding available to eligible projects
- hinders the ability of DSDIP to achieve the objectives of the R4R program
- wastes public resource assessing projects when the assessments are not used to inform decision-making
- reduces transparency and public confidence in the administration of government grant programs.

Figure 2B
Case study

Ineligible but funded—Panorama Drive

Livingstone Shire Council applied for R4R funding to construct a new road in round three of the grant program. The council applied for $13 million of R4R funding and indicated the total project cost as $26.5 million.

DSDIP noted in the evaluation of the project application and assessment:

- The funding applied for was in excess of $10 million that was the set threshold for this grant program.
- DTMR indicated on their assessment of the project:
  - not to consider under the R4R funding model, as its priority was considered low
  - no direct impact from the resource industries vehicle movements was evident for this project.
- The project was not on state-owned or council owned road, making the project ineligible according to the program guidelines.
- Round three guidelines indicated that road projects must also include confirmation of the support of the relevant regional road group. There was no support letter from the Regional Road Group.
- DSDIP did not assess the project for value for money before the former minister approved the project. A CBA could be not be obtained from DSDIP for this round three project.
- DSDIP assessed the project and scored the project a total score of 67 that placed the project in the 'meets criteria' category. DSDIP did not score this project as ineligible.

A brief of decision dated 7 April 2014 was prepared for the minister’s approval, indicating that DSDIP would confirm funding once DTMR and the applicant prepared detailed cost estimates. DSDIP withdrew this brief due to administrative changes and resubmitted another brief on 22 May 2014 that also proposed the former minister approve the project on the condition that he confirm funding once the cost estimates have been determined with DTMR.

The minister announced the project on 9 April 2014, before DTMR completed a detailed project plan and project cost. DTMR submitted a project plan in July 2014 that indicated a total project cost of $30 million. A total of $15 million R4R funding went to this project.

Source: Queensland Audit Office

Assessing value for money

DSDIP requested councils complete a CBA on their preferred option as part of the business case in rounds two, three and four. Figure 2C shows that, by round four, 92 per cent of the shortlisted projects had a CBA.

Figure 2C
Cost benefit analysis (CBA) per round for shortlisted projects

Round	Number of shortlisted projects	Number of projects with CBA	Percentage of projects with CBA
One	20	0*	0*
Two	46	33	71%
Three	30	21	70%
Four	37	34	92%
Strategic projects	10	0	0

*Note: There was no requirement in round one to include a CBA. From the 20 projects shortlisted in round one, the former minister approved 19. He did not approve three projects shortlisted in round three, which had to submit business cases.

Source: Queensland Audit Office – extracted from Grants Management System, Department of State Development Infrastructure and Planning (WP 3200-1)

The initial lack of guidance contributed to inconsistencies and gaps in the information provided by councils. This in turn made it difficult for DSDIP to use the information supplied to compare and rank all the applications. The gaps we identified across all rounds included:

- Twenty-six projects (22.8 per cent) did not include a net present value (NPV).
- Thirteen projects (14.7 per cent) shortlisted had a negative NPV.
- Two instances where cash inflow and outflows were calculated in excess of 25 years.
- Cash flows were not all discounted at a rate of six per cent as required.
- Four projects did not include either cash inflows or cash outflows as part of their CBAs in round four.
- Seven out of 35 projects shortlisted in round four did not include details of the assumptions made in the calculations, or the rationale behind how costs and benefits were calculated.

Decisions to approve projects need to balance the need for the project and the ability of council to operate and maintain the infrastructure sustainably. Some projects may have a negative net present value but they may be needed as they are critical for the viability of small communities. In these cases, it is important that decision-makers are aware of the true costs of this infrastructure.

Changes to assessing value for money

Rounds one and two of the grant assessment process involved two stages prior to approval of applications:

- expression of Interest (EOI) submission
- business case submission.

In 2014, the minister reduced the two-stage assessment process to one-stage, midway through the round by approving the projects at the EOI stage. This meant that DSDIP did not do planned assessments before the former minister approved the projects. This affected:

- the timing of the due diligence assessments
- the assessment of community support.

When governments or ministers approve and announce projects before their departments have completed the assessments, there is the potential to influence, or be seen to influence, the assessment work and funding advice.

Timing of due diligence assessments

In round three and four, DSDIP conducted due diligence assessments after the former minister approved the projects. This resulted in DSDIP funding projects that may not have delivered the most economic value.

As part of the project's due diligence, DSDIP assessed the net economic benefit obtained from the project plan and CBA. DSDIP considered the adequacy of assumptions made and revised the net economic benefit of a project where necessary.

DSDIP assessed whether the project would deliver value for money, based on the information provided in the project plan and CBA, as part of the due diligence report. DSDIP used the due diligence reports to identify risks and issues to be incorporated into sub-agreements.

Assessing community support

In round three, the minister approved projects based on the initial assessment of the EOI. As a result, DSDIP scored the expressions of interest on only three of the five published criteria. They:

- scored on eligibility, strategic merit and alignment
- did not score applications on value for money or community consultation. DSDIP were to consider these with the business case and detailed project plan.

The minister approved the majority of the round three non-flood projects, worth $52 million, without considering the cost-benefit, a full assessment of the value for money or consultation to validate the project as a priority for the community.

Aligning application to infrastructure plans

We expected councils to refer in their grant submissions to how their projects fitted into local or state asset management plans. Asset management plans contain information such as:

- the planned maintenance, replacement or upgrade of existing infrastructure
- the infrastructure needed to support economic growth.

Some councils had local or regional asset management plans but there was no statewide infrastructure plan to guide infrastructure investment within Queensland. The absence of a plan increases the risk of DSDIP funding infrastructure that is:

- not needed
- under-capacity, thus increasing maintenance costs
- over-capacity, thus incurring unnecessary operating costs
- not able to meet future forecast demand.

State, regional or local plans

In all rounds, DSDIP gave priority to projects that addressed legacy issues or critical needs arising from the rapid growth of the resource sector. In round one, the mining-affected councils identified these needs in economic development or strategic planning documents. In rounds two and three, when all regional councils within Queensland were included, it gave preference to infrastructure that aligned with community, state, regional or council planning priorities or plans.

Figure 2D case study, is an example where DSDIP did not assess regional plans adequately before the former minister approved the funding. The Royal Flying Doctor Service (RFDS) is in the process of upgrading to larger aircraft that require longer and wider runway surfaces. Airstrips in remote and very remote communities provide critical access to health services. Health practitioners fly in to communities for regular clinics and, in emergencies, evacuate patients to major hospitals. In 2013, the Regional Airports Development Scheme ceased. It used to provide funding for regional air service development or emergency access to the RFDS across Queensland. Government advised councils to explore other funding options including R4R.

Figure 2D
Case study

Lack of coordinated planning—North Burnett aerodromes, Gayndah, Munduberra and Monto

Local, regional and statewide plans did not identify the need to upgrade the three airstrips.

In round three, North Burnett Council applied to upgrade three of their six aerodromes, Gayndah, Monto and Mundubbera to meet the new requirements of the RFDS. While the projects may have had merit in themselves, they did not align with regional or state planning priorities.

These airstrips are within two hours' drive of each other. The Munduberra and Gayndah strips are 35 minutes apart. The Monto strip is already long and wide enough to accommodate the new planes. The Munduberra airstrip received National Disaster Relief and Recovery Funding ($476 724l) and Betterment ($947 997) funding to lift the strip out of the flood zone.

These airstrips are not:

- economically significant in state plans
- listed in the regional disaster management plan
- identified for upgrading in councils' ten-year infrastructure plan
- part of the statewide airport strategy.

R4R funded upgrades to aerodromes in seven councils totalling $21 million. But North Burnett was the only council that applied for and had approved upgrades to more than one aerodrome. R4R funded $8.2 million, the council contributed an additional $569 000 and the Australian Government contributed $3.4 million.

Funding these three airstrips in North Burnett in close proximity to each other means there is less money to upgrade other airstrips in the state.

A planned approach could prioritise the upgrades based on:

- the distance to the nearest medical care (remoteness)
- the population density of the area
- historical medical evacuation data
- forecast population numbers.

It is not an efficient or equitable use of government funds to upgrade three airstrips in close proximity without proper consideration of the total needs and planning priorities across the state.

Due to funding issues, the RFDS is now intending for Cairns and Mt Isa to be the first to receive the new aircraft in 2016.

Source: Queensland Audit Office

DSDIP did not validate council's assumptions justifying the project need. The result is an inefficient use of grants funds.

RegionsQ

In round four, the government changed the program objectives to focus on projects that build regional communities beyond mining and resources. Focusing on economic growth in the regions and alignment with achieving the priorities of RegionsQ. DSDIP assessed the alignment of projects to the broad priority action areas identified in the RegionsQ framework. It did not assess them against the next level of detail in the framework for the nine projects or areas of regional significance.

Of the round four applications shortlisted, 32 per cent were for projects in areas identified in the RegionsQ framework as having regional significance to support regional economic and jobs growth.

Funding projects aligned to the RegionsQ priorities provides confidence that projects will broadly address areas of community need. If DSDIP had aligned the applications to specific projects outlined in RegionsQ it would have strengthened the assessment process.

Recommending projects for approval

We expected to find that DSDIP recommended projects for approval based on a rigorous assessment of each project's potential to deliver value for money.

DSDIP did not make clear recommendations to the former minister on the applications to fund. Not clearly recommending the projects to fund reduces the ability of the former minister to meet his obligations to ensure appropriate and sufficient evidence exists to support his decisions under the *Public Records Act 2002*.

The Australian National Audit Office better practice guide *Implementing Better Practice Grants Administration* highlights that conducting competitive, merit-based process involves assessing all eligible, compliant applications in the same manner against the same criteria. It also involves ranking the applications in priority order for receipt of the available funding, based upon the outcome of those assessments.

DSDIP staff assessed applications and separated the projects according to the assessment criteria into four categories. The categories changed slightly from round to round but were broadly as follows:

- strong
- suitable
- minimal
- not eligible.

DSDIP changed the type of funding advice it gave to the minister over the four rounds. The biggest change was from round one to two.

In round one, a panel of senior officers from DSDIP, the Departments of Local Government, Community Recovery and Resilience, and Transport and Main Roads (DTMR) participated in the assessment process. The panel rated the projects as either:

- recommended
- suitable
- eligible but not recommended
- not eligible.

In rounds two to four, DSDIP did not recommend the applications to fund. It provided the minister with lists of the applications classified into different categories depending on how well they aligned to the assessment criteria. Figure 2E illustrates the various categories used to list projects in each round and the format of project listings provided to the minister.

Figure 2E
Categories of projects indicated in the lists provided to the minister

Round	Category
One	▪ Recommended ▪ Suitable ▪ Eligible but not recommended ▪ Not eligible
Two	▪ Performed strongly—separated into more or less than $500 000 ▪ Meet criteria—separated into more or less than $500 000 ▪ Performed strongly but ineligible for round two ▪ Minimal performance ▪ Small scale council applications
Three	▪ Performed strongly—separated into more or less than $500 000 ▪ Meet criteria—separated into more or less than $500 000 ▪ Minimal performance ▪ Consider as part of flood funding
Four	▪ Performed strongly—separated into more or less than $500 000 ▪ Meet criteria—separated into more or less than $500 000 ▪ Minimal performance ▪ Ineligible ▪ Consider as part of flood funding

Source: Queensland Audit Office

Recommendations

We recommend that the Department of State Development:

1. use a two stage process—expression of interest, then detailed assessment to ensure:
   a. councils only have to invest in developing business cases and detailed plans when they are successful in the expression of interest stage
   b. the grant assessors assess application eligibility first—then only assess eligible applications against the remaining grant assessment criteria. This will allow them to focus on the detailed assessment at the business case stage
2. advise councils if the guidelines change after they are published and give councils an opportunity to re-submit applications based on the revised criteria
3. assess the cost benefit analysis of applications prior to approval and announcement of projects. And rigorously check that the figures and assumptions show the project is viable. This should include an emphasis on councils' ability to fund the operating costs and on-going maintenance
4. engage independent expertise on an as needs basis to give clear advice to decision-makers to inform the ranking of applications in terms of the grant criteria and program objectives.

3. Awarding the grants

In brief

The Minister for State Development, Infrastructure and Planning (the former minister) in consultation with the Cabinet Budget Review Committee approved projects under the Royalties for the Regions (R4R) program. The Governor in Council approved projects over $10 million. The *Financial Accountability Act 2009* and *Public Records Act 2002*, require decision-makers to keep records of how grants have been allocated, monitored and evaluated.

Conclusions

The former minister's decisions to award the grants were not always consistent with the DSDIP assessments. This meant that councils with project proposals that more closely aligned to the guidelines missed out. He also funded strategic projects where no departmental assessment was undertaken, and value for money in line with the program objectives was not considered.

There is no documentation to support the reasons for these decisions. When there is a lack of alignment between the objectives of grant programs and how government allocates the money, councils may be wary of investing time and resources in developing rigorous applications.

Findings

- 56.3 per cent of the funding the government allocated to R4R was used on the competitive council rounds. The remaining 43.7 per cent was diverted to election commitments, special and strategic projects.
- Funding decisions did not align with the department's grant application assessments and scores. The minister approved projects with lower scores over higher scored projects without any documented justification.
- The data shows that the large councils received most of the funding—42 per cent.
- The data shows that the former minister was more likely to fund council projects in government electorates. Conversion rates were higher for applications in these electorates:
  - council projects with a 'strong score' in government electorates had a conversion rate of 44.3 per cent, more than twice the rate for projects with a 'strong score' in non-government electorates
  - 12 council projects with a 'minimal score' worth $19.4 mil in government held electorates were funded.
- The former minister approved nine of the ten strategic projects worth $70.2 million without an assessment from DSDIP of the need for the projects or value for money. He approved $4.4 million of projects that were ineligible under the guidelines.
- Special projects did not have to meet the requirements of the other grants. There is no evidence that they will help to achieve the objectives of the program.
- Councils obtained private sector commitments to 30 (23 per cent) of the 129 projects approved worth a total of $67.4 million ranging from $50 000 to $22.7 million.
- Councils are realising benefits at a project level. As at 17 April 2015, DSDIP had spent $79.6 million of R4R grant funding on regional infrastructure projects. However, it did not collect the information needed to demonstrate the long-term economic development and employment objectives of the R4R program.

Recommendations

We recommend that the Department of State Development (DSD):

5. collect information from councils on both qualitative and quantitative benefits in project evaluation reports.

We recommend that Queensland Treasury revise advice to grant decision-makers to:

6. require decision-makers to demonstrate clearly that grant decisions are equitable, transparent and represent value for money. This includes recording the criteria on which their decisions were based and the reasons for the decisions, particularly when they approve lower ranked applications over higher ranked applications.

Introduction

The government designed the Royalties for the Regions (R4R) program to provide state funding to local governments for them to build local road and community infrastructure, and to protect their communities from flooding. It was through this mechanism that local governments would build their community capacity and economic sustainability.

Initially the government flagged $495 million was available for councils over four years, with a longer-term policy intent that they would provide $110 million annually under this program thereafter. Early in the program design phase the government redirected $94 million of these funds to the state department of transport, which used the funds to honour the government's election commitments relating to state road infrastructure. Not all the R4R money was available for councils to apply for in the rounds. The government allocated the funding, as follows:

- competitive rounds for councils, $286.5 million
- transferred to the Department of Transport and Main Roads (DTMR) for election commitments, $94.0 million
- strategic projects, $90.2 million
- recreational rail trails, $3.8 million
- special projects, $13.6 million
- cancelled projects and savings returned, $3.2 million.

As with most grant programs demand for such funds far outweighs the funds available, making allocative efficiency within this program a priority—that is, building infrastructure where it is most needed.

To maximise allocative efficiency it is necessary to establish eligibility and evaluation criteria for grant allocations, so that government selects those projects with the highest relative merit and priority.

The approved R4R grant framework sensibly reflected this rational approach by requiring Department of State Development, Infrastructure and Planning (DSDIP) to prioritise funding for projects that best address the eligibility and assessment criteria.

The Australian National Audit Office (ANAO) has published a better practice guide on the administration of grants to encourage better outcomes with grant funds. In recent years, ANAO has noted the importance of grant programs being awarded in line with the published guidelines. Grant programs that select the best projects are more likely to achieve the program objectives for the least effort and cost.

This chapter examines the grant allocations made and assesses whether they were consistent with the policy intent and design of the program. Specifically it considers whether the former minister allocated the grants for eligible projects to eligible councils and whether the projects funded were demonstrably those with the highest relative merit and priority. It also looks at whether DSDIP can demonstrate the benefits achieved to date through the projects funded through the R4R program.

Conclusions

There are clearly improvements to regional infrastructure, but we cannot be certain these necessarily outweigh costs, or that former minister allocated the funds efficiently. There is no guarantee that the projects funded had the most merit or that they were most needed by the councils.

The former minister made allocations that were not consistent with the DSDIP analysis. In some cases, he approved ineligible or marginal projects. Because the former minister did not document the rationale behind these decisions, it is not clear what criteria he used. This reduces transparency and weakens accountability.

The actual criteria that the former minister was using to approve the applications should have been clear to councils. This could have avoided councils and departmental staff unnecessarily investing time, resources and money to demonstrate the value of their applications against irrelevant criteria.

Funding council projects over four rounds

Councils and state departments built or are building regional infrastructure projects. The projects address legacy issues caused by the resource sector activity. However, DSDIP does not know whether it funded the best projects or if all the legacy issues in regional Queensland have now been resolved.

The former minister received advice from DSDIP on the council applications. We expected that the former minister or DSDIP would document the rationale for any decisions to fund projects that did not align with this advice. This is a requirement of the *Public Records Act 2002* and the previous government's *Protocols for communication between ministerial staff members and public service employees*.

The former minister advised he was concerned that:

> "*Adopting a completely objective and rigid cost benefit analysis assessment approach would have defeated the purpose of the R4R program as funding would have been entirely taken up by the larger regional cities and smaller communities would have continued to receive no infrastructure funding*."

Our analysis showed inconsistencies between the projects funded and the assessments with the former minister's assertions regarding small councils. They were:

- suitable, minimal and ineligible projects were funded ahead of strong projects
- small councils were not favoured or disadvantaged by the process
- applications in LNP electorates had higher conversion rates.

Projects assessed as minimal but funded

In round one, DSDIP clearly recommended projects for approval to the former minister that had the highest value. The former minister approved them in line with the recommendations from his department. He approved three extra projects that DSDIP had not recommended but he had already funded all the recommended projects.

From round two onwards, the former minister approved projects with lower scores over higher scored projects. Figure 3A shows that in rounds two to four DSDIP assessed 50 projects ($226.4 million) as strongly meeting the program criteria, which the former minister did not fund. This of itself is not unexpected, given that the program was consistently oversubscribed. However, he approved 49 projects ($95.4 million) assessed by DSDIP as only 'suitable', 'minimal' or 'ineligible'.

DSDIP could not provide the documentation to support the decision to approve these 49 projects over those assessed as strong, excluding round two and three flood projects that were part of a joint application process with The Department of Infrastructure, Local Government and Planning (DILGP). This raises questions about the transparency of the actual criteria used to allocate the funding for this program.

Figure 3A
Comparison of round one to four projects assessment and approval outcomes

Round	'strong' Not approved	'suitable' Approved	'minimal' Approved	'ineligible' Approved
One	0	2 – $22 mil.	1 – $5.0 mil.	0
Two	13 – $36.8 mil.	7 – $4.3 mil.	2 – $6.1 mil.	1 – $12.7 mil.
Three	14 – $94.8 mil.	15 – $29.2 mil.	0	0
Four	23 – $94.8 mil.	10 – $7.3 mil.	11 – $8.8 mil.	0
Total	**50 – $226.4 mil.**	**34 – $62.8 mil.**	**14 – $19. mil.**	**1 – $12.7 mil.**

Source: Queensland Audit Office – extracted from DSDIP's moderation materials.

Funded projects by council size

The former minister advised us that he recalls:

- larger councils submitted disproportionately greater numbers of projects
- smaller councils did not have professional grant officers and therefore did not have the expertise to develop sound project applications and rigorous cost-benefit analysis
- larger regional councils were judged to be able to meet the costs of projects from their own significant existing resources.

We analysed all of the applications submitted, assessed and approved by council size and found that:

- large and medium sized councils did submit proportionally more applications than very large or small and indigenous councils
- large and medium councils submitted nine applications each on average
- small and Indigenous councils submitted four applications each on average.

Applications from small councils do not appear to have been of a lower standard compared to medium, large or very large councils. DSDIP assessed applications from small councils as just as strong or suitable as medium or large councils:

- All councils, regardless of size, had between 31 to 44 per cent of their applications assessed as minimal and 56 to 69 per cent of their applications assessed as suitable/strong.
- DSDIP assessed 67 per cent of applications from small councils as strong and 69 per cent of applications from large councils as strong.

The number and value of projects approved in small councils does not indicate they were either favoured or disadvantaged over medium and large councils:

- very large councils made up 15 per cent of the councils that applied and received 14 per cent of the funding
- large councils made up 24 per cent of the councils that applied and received 42 per cent of the funding
- medium councils made up 18 per cent of the councils that applied and received 33 per cent of the funding

- small councils made up 43 per cent of the councils that applied and received 11 per cent of the funding.

It is not clear how the former minister assessed the ability of large councils to fund projects from their own budgets. We analysed the average operating surplus ratios of very large and large councils over the last five years. The analysis showed that 29 large and very large councils applied for projects. Of these, 20 councils had negative average operating surpluses. This would not indicate that large or very large councils are necessarily able to fund infrastructure projects without state government support.

Analysis of funded projects across party electorates

To test the equity and impartiality of decision-making in R4R we assessed the distribution of funding across party electorates. We analysed how many applications DSDIP assessed and the former minister approved by electorate.

We acknowledge that the Liberal National Party (LNP) held the majority (88 per cent) of the eligible electorates. However, by round four, 11 electorates (12 per cent) covering non-LNP electorates were eligible for funding. Figure 3B shows the conversion rates for applications in LNP and Australian Labor Party (ALP) electorates.

Figure 3B
Conversion rates by political party

Category per party	Assessed by DSDIP		Approved by the minister		Conversion rate
	Number	Percentage of total	Number	Percentage of total	
Strong and suitable—ALP	10	2.7%	2	1.8%	20.0%
Strong and suitable—LNP	174	46.6%	77	70.6%	44.3%
Strong and suitable—Other	55	14.8%	16	14.7%	29.1%
Strong and suitable—Total	**239**	**64.1%**	**95**	**87.1%**	**39.7%**
Minimal—ALP	13	3.5%	0	0.0%	0.0%
Minimal—LNP	96	25.7%	12	11.0%	12.5%
Minimal—Other	25	6.7%	2	1.9%	8.0%
Minimal—Total	**134**	**35.9%**	**14**	**12.9%**	**10.4%**
Total all parties	**373**	**100.0%**	**109**	**100.0%**	**29.2%**

Note: Other includes Independent seats and the Katter's Australian Party

Source: Queensland Audit Office

We found the former minister was more likely to fund projects in LNP electorates.

- Seventy-seven of the 174 strong and suitable projects in LNP electorates were funded—a conversion rate of 44.3 per cent.
- Two out of the 10 strong and suitable projects in ALP electorates were funded—a conversion rate of 20.0 per cent.
- Twelve of the 96 minimal projects in LNP electorates were funded. The former minister funded no minimal projects in ALP electorates.

DSDIP could not provide documented evidence to support why the former minister approved 12 projects in LNP electorates scored as minimal ahead of others assessed as strong. The department documented the minister's decisions but not the rationale to support the decisions.

There may be valid reasons why the LNP electorates faired relatively better, but this is not evident. This raises questions about the criteria used by the former minister to allocate the funding for this program. The lack of documentation makes it difficult to defend claims of bias or favour. Figure 3C is a case study of one of the assessed as minimal but funded projects.

Figure 3C
Case study

Assessed as minimal but funded—Birdsville airport resealing
In round two, Diamantina Council applied for $0.87 million to resurface the Birdsville runway to eliminate safety and drainage issues. DSDIP rejected the application in round two as minimal because: ▪ of a lack of evidence that the project related directly to resource sector impacts ▪ the project was for maintenance, rather than an upgrade. In round three, Diamantina council applied again seeking $0.43 million to re-surface the Birdsville runway to eliminate safety and drainage issues. This time DSDIP assessed the project as eligible but scored below 50% on the first and last criteria. The former minister funded the project over projects that DSDIP assessed as strongly meeting the criteria.

Source: Queensland Audit Office

Funding strategic projects

In August 2014 (before the fourth round opening), the government introduced a new funding category, the Strategic Projects Fund. Its purpose was to make funds available to Queensland Government agencies to invest in strategic regional infrastructure.

The former minister approved nine of the 10 strategic projects worth $70.2 million without receiving any assessments or advice from DSDIP. He approved $4.4 million of projects that were ineligible under the guidelines. DSDIP had not assessed the nine projects to demonstrate value for money. DSDIP could not provide records to support the rationale for approval of these projects.

DSDIP developed Strategic Projects Fund guidelines and the former minister approved them on 13 November 2014. The guidelines included three assessment criteria for the strategic projects. The guidelines require that the projects must:

- align with RegionsQ and economic or community need
- be financially viable and demonstrate value for money
- have demonstrated regional support
- be on the agencies' land or have any rights and permissions resolved
- be ready to start work within nine months.

DSDIP provided the Strategic Project Fund Guidelines to the Department of Health, Education and Training, and the Department of Transport and Main Roads. These departments responded with their project proposals.

In December 2014, the Property and Infrastructure Cabinet Committee endorsed the 10 strategic projects (see Figure 3D). In January 2015, the minister approved them. On 14 July 2015, the current Minister for State Development and Minister for Natural Resources and Mines signed off on all 10 strategic projects.

Figure 3D
Projects not assessed using Royalties for the Regions guidelines but funded

Project	$ million
Pimlico State High School—Drop-off lane	2.0
Causeway on Torbanlea-Hervey Bay Road	1.8
Middle Ridge State School—Drop-off zone	0.4
Kirwan State High School—Parking project	2.0
Scrub Hill Road/Wide Bay Drive/Burrum Heads Road intersections	26.0
Dalby—Traffic lights (near Dalby South School)	1.0
Upgrade of Toowoomba/Cecil Plains Road	4.0
Townsville Sewerage Treatment Plant Upgrade	20.0
Mareeba Airport Upgrade	13.0
DTMR Supporting Drive Tourism	20.0
Sub-total	**90.2**

Source: Queensland Audit Office

There were three parking projects where no documentation to support the decision for approving them exists. In two of the projects, key stakeholders including the relevant council and schools were not aware that the government was considering the projects prior to approval. This raises the question as to the level of consultation and validation of community need for these parking zones over and above other infrastructure projects. Figure 3E is a case study of three of the strategic projects.

**Figure 3E
Case study**

Drop-off zones at three schools
The three schools were Pimlico State High School, Kirwan State High School and Middle Ridge State School. There is no documentation to support the decision to approve these projects under R4R: ▪ No applications were made for these projects under the R4R program. ▪ The projects were not assessed against the approved Strategic Project Fund Guidelines. ▪ No detailed project plans or cost benefit analyses were developed. There were known traffic issues at the three schools. Councils had been working on the issues and Toowoomba Regional Council had developed concept plans in mid-2014 in liaison with the Department of Education and Training, school representatives and the school Parents and Citizens' Association. However, the consultation process did not clearly identify that R4R funding was a business driver. And appropriate approval for the use of school land was not sought prior to Cabinet approving these projects with R4R funding. Planning and cost estimates were incomplete for the three school projects and in some cases non-existent. This increases the risk of: ▪ unforeseen land approvals/resumptions causing significant delays ▪ giving councils too much or not enough funding to complete the projects. While the individual projects may have merit and meet genuine community and safety needs, it is not clear how they will contribute to the objectives of the R4R program.

Source: Queensland Audit Office

Funding rail trails projects

DSDIP through the Major Projects Office initiated a program to fund recreational rail trail projects as a new budget initiative. Rail trails are shared-use paths recycled from abandoned railway corridors. The community can use them for walking, cycling and horse riding. The rail trail program:

- was not originally part of the R4R program
- had its own separate guidelines.

This changed in April 2014 when the former minister approved the Regional Rail Trails Grants Program. This broadening the scope of the R4R program to include rail trails. However, the former minister had already approved two rail trail projects worth $3.8 million to come out of R4R strategic project funding four months earlier in July 2014.

Funding special projects

The former minister funded five special projects and activities totalling $13.6 million. There were no specific guidelines or applications for these projects or activities. DSDIP did not assess these projects and activities against the R4R objectives or criteria. The former minister or DSDIP cannot demonstrate that these special projects are value for money to achieve the objectives of the program.

The special projects were:

- Alpha Medical Centre, $10 million
- Mary Valley Rattler, $0.6 million
- RegionsQ Showcase, $1.0 million
- Bimonthly newsletter, $0.5 million.

The new government approved additional funding for Yeppoon foreshore project, $1.5 million following cyclone Marcia.

DSDIP through the Major Projects Office had been involved in the Alpha Medical Centre project and sought approval from the former minister prior to him funding the project with R4R funding. This included costing and planning of the project.

The Director-General for DSDIP approved the expenditure of $2 million for the RegionsQ Showcase, ($1 million from R4R funding and $1 million from the Department of State Development budget) based on verbal approval of the minister.

Measuring program benefits

DSDIP did not collect the information needed to demonstrate the long-term economic development and employment benefits of the upgrades to regional infrastructure. It is not always straightforward to make links between new or upgraded infrastructure and direct outcomes for the community. However, it is critical to specify the information needed to judge success (benefits) as part of the evaluation process. This would allow DSDIP to incorporate them into the grant agreements.

Given the long-term nature of infrastructure projects in many cases, councils will not see the longer-term benefits until months or years after projects have finished. In rounds one to three, DSDIP did not ask councils to conduct post-project evaluations of the medium and/or long-term benefits. DSDIP will need to measure the longer-term benefits of the program over time, such as sustainability and resilience of regional communities. It will need to consider regional outcomes in light of other regional economy stimulating activities as well.

In the short-term, DSDIP is now measuring the benefits of the outputs of the program when the councils build the infrastructure. Copies of case studies are available on the R4R website. The government can demonstrate that it has delivered outputs from the program and met some of the broad R4R program objectives through:

- Increasing private sector investment into resource communities and greater coherence of public and private sector investment for the benefit of Queenslanders.
- Commitments to build infrastructure which improve the liveability and amenity of regional communities, making places more attractive to live and work.

One of the objectives of the program was to encourage private sector investment in state infrastructure. Councils obtained private sector commitments to 30 (23 per cent) of the 129 council projects approved. The private sector committed a total of $67.4 million ranging from $50 000 to $22.7 million. Of these 30 projects, seven are now complete.

DSDIP has tracked the outputs of the program such as the number and length of upgraded roads, water treatment plants and aerodromes. The benefits identified by councils were qualitative and not measurable. Qualitative benefits focus on the non-numerical aspects while quantitative benefits are easily measured.

Figure 3F lists some of the outputs and qualitative benefits DSDIP measured for the projects.

Figure 3F
A listing of the project benefits

Program achievement	Qualitative benefits
64 road projects totalling more than 282 km. (R4R funding: $158 680 662)	▪ Improved road safety and reduced accident risk ▪ Increased road capacity — volume and vehicle size ▪ Improved access and reduced journey times ▪ Attracts tourism ▪ Improves regional supply chains ▪ Support jobs.
Upgrades to 16 regional airports—including improvements to terminal facilities and runways. (R4R funding: $21 183 902)	▪ Improved safety for landing/take-off ▪ Increased size of aircraft that can use airport ▪ Increases terminal passenger capacity ▪ Increases airport use (including RFDS) ▪ Attracts tourism ▪ Supports jobs.
20 flood mitigation projects—reducing the risk of flooding for 635 business and residences in Toowoomba and Roma alone. (R4R funding: $31 075 882)	▪ Reduced flood risk and projected flood levels for future events ▪ Reduced number of properties and areas inundated during future events ▪ Improved accessibility during flood events ▪ Reduced insurance premiums ▪ Improved safety ▪ Supports jobs.
35 water, sewerage and waste management projects across regional Queensland. (R4R funding: $67 315 602)	▪ Increased processing/flow capacity to service larger population ▪ Improved treated water quality ▪ Improved hygiene and safety ▪ Improved compliance with licencing requirements ▪ Supports jobs.
18 diverse community infrastructure projects. (R4R funding: $18 541 758)	▪ Increased community services/facilities ▪ Increase venue/attraction capacity ▪ Attracts tourism ▪ Supports jobs.

Source: Queensland Audit Office

Councils were able to quantify the benefits of the flood mitigation projects. They were able to demonstrate how many houses and businesses the levees protected. The other benefit to the community was a reduction in insurance premiums.

Councils were also able to quantify the increase in flow capacity to service a larger population for water, sewerage and waste management projects. Figure 3G is a case study of a sewerage and recycled water scheme project at Miles.

Figure 3G
Case study

Achieving R4R program objectives—Miles Sewerage and Recycled Water Scheme

Western Downs Regional Council applied for funding of $1.29 million to construct the Miles water, sewerage and recycled water scheme (stage 1). DSDIP assessed the project and recommended the project for approval in round one.

Council designed the project to increase capacity in water, sewerage and recycled water. The scheme would provide critical services for the community and allow growth for residential, commercial and industrial sectors. Stage one included a pipeline corridor and a recycled water irrigation system.

Council completed the project in January 2015. The summary report, listed the following benefits:

- The project provides the capacity for Council to increase water and wastewater services from 1 600 to 5 000 equivalent persons.
- Several developments (residential, industrial and temporary worker's camps) now have access to potable water.
- The use of recycled water for irrigation offsets potable water supplies for use by homes and business.
- The recycled water scheme has improved the quality of the fairways at the golf course. This provides valuable green space to the community.
- The new sewage treatment facility is able to meet environmental licensing conditions.

Source: Queensland Audit Office, Image courtesy of Maranoa Regional Council

DSDIP have asked councils to complete a project benefits report for round four. Councils will identify the benefits regional communities have received through the program. This will assist DSDIP to evaluate the program outcomes, achievement of program objectives and the broader Queensland priorities for regional Queensland. At the time of the audit, no round four projects were completed.

Recommendations

We recommend that the Department of State Development:

5. collects information from councils on both qualitative and quantitative benefits in project evaluation reports.

We recommend that Queensland Treasury revise advice to grant decision-makers to:

6. require decision-makers to demonstrate clearly that grant decisions are equitable, transparent and represent value for money. This includes recording the criteria on which their decisions were based and the reasons for the decisions. In particular, when they approve lower ranked applications over higher ranked applications.

Appendices

Appendix A—Comments

In accordance with s.64 of the *Auditor-General Act 2009*, a copy of this report was provided to the Department of State Development and Queensland Treasury with a request for comment.

Responsibility for the accuracy, fairness and balance of the comments rests with the head of these agencies.

Comments received from Under Treasurer, Queensland Treasury

Queensland Government

Queensland Treasury

Our Ref: 04461-2015
Your Ref: 2015-9132P

RECEIVED
17 NOV 2015
QUEENSLAND AUDIT OFFICE

Mr A Greaves
Auditor-General of Queensland
Queensland Audit Office
PO Box 15396
CITY EAST QLD 4002

Dear ~~Mr Greaves~~ Andrew

Thank you for your letter of 4 November 2015 concerning the draft report to Parliament on the Royalties for the Regions grant program audit, and for the opportunity to provide comment.

Your recommendation about enhancing guidance for agencies to reinforce the importance of documenting reasons for decisions is supported. Please find attached the completed table which addresses Treasury's response to your recommendation.

Fundamental concepts within the *Financial Accountability Act 2009* and supporting legislation and policies are those of efficiency, effectiveness and economy. Documenting the reasons for decisions is vital to enable an agency to demonstrate compliance with these fundamental concepts.

Amendments to the Financial Accountability Handbook will be prepared in line with your recommendation. We will share drafts of these amendments with your officers to ensure your concerns are addressed.

If you would like to discuss this further, please contact me, or have one of your officers contact Mr Glenn Miller, Acting Assistant Under Treasurer, Fiscal Strategy Division on (07) 3035 1962 or at glenn.miller@treasury.qld.gov.au.

Yours sincerely

Jim Murphy

Jim Murphy
Under Treasurer
16/11/15

Encl.

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Response to recommendations

Queensland Audit Office

Queensland Treasury, Royalties for the Regions (Report No. 4: 2015–16)

Response to recommendations provided by Under Treasurer, Queensland Treasury on 4 November 2015

Recommendation	Agree / Disagree	Timeframe for Implementation Quarter and Year	Additional Comments
We recommend that Queensland Treasury revise advice to grant decision-makers to: • Require decision-makers to demonstrate clearly that grant decisions are equitable, transparent and represent value for money. This includes recording the criteria on which their decisions were based and the reasons for the decisions. In particular, when they approve lower ranked applications over higher ranked applications.	Agree	March 2016	Queensland Treasury will draft amendments to the Financial Accountability Handbook and share these with QAO to ensure the concerns are adequately addressed.

1

Comments received from the Director-General, Department of State Development

Queensland Government

Department of
State Development

Our Ref: DGC15/1405

Your Ref: 2015-9132P

RECEIVED
25 NOV 2015
QUEENSLAND AUDIT OFFICE

24 NOV 2015

Mr Andrew Greaves
Auditor-General
Queensland Audit Office
PO Box 15396
CITY EAST QLD 4002

Dear Mr Greaves

Thank you for your letter of 4 November 2015 and the attached proposed report to Parliament on the performance audit on Royalties for the Regions. I appreciate the opportunity to consider the proposed report and provide comment.

I confirm that the Department of State Development (DSD) agrees with the recommendations for DSD.

DSD is committed to ensuring that grant programs are administered efficiently, effectively and economically and to achieving value for money, in accordance with the *Financial Accountability Act 2009*. We also acknowledge that the Financial Accountability Handbook specifies requirements for grant program design, program administration and evaluation and analysis.

I welcome your recognition that DSD took lessons from the first pilot round of the Royalties for the Regions program and progressively refined its grant management process over the subsequent funding rounds.

I am pleased to advise that Recommendation 1 relating to a two stage grant assessment process will be implemented for round two of the Building our Regions program. The remainder of the report recommendations for DSD, arising from the Royalties for the Regions program, have been implemented in the design and rollout of the processes and systems to manage round one of the Building our Regions program. DSD's response to each recommendation indicating implementation status is enclosed.

If you require any further information, please contact Ms Maree Parker, Executive Director, Economic and Regional Development, Department of State Development, on 3452 7386 or Maree.Parker@dsd.qld.gov.au, who will be pleased to assist.

Yours sincerely

Michael Schaumburg
Director-General

Enc

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Responses to recommendations

Queensland Audit Office

Department of State Development, Royalties for the Regions (Report No. 4: 2015–16)

Response to recommendations provided by Maree Parker, Executive Director, Department of State Development on 13 November 2015.

Recommendation	Agree / Disagree	Timeframe for Implementation Quarter and Year	Additional Comments
1. Use a two stage process—expression of interest, then detailed assessment to ensure: • Councils only have to invest in developing business cases and detailed plans when they are successful in the expression of interest stage • The grant assessors assess application eligibility first—then only assess eligible applications against the remaining grant assessment criteria. This will allow them to focus on the detailed assessment at the business case stage.	Agree	2nd quarter 2016	A two-stage process will be implemented for Round Two of the Building Our Regions program. Implementing a two stage process will lengthen the total timeframes for the round by 10 weeks. This is to accommodate the additional time required for Councils to prepare their applications and for the department to undertake the additional assessment stage.
2. Advise councils if the guidelines change after they are published and give councils an opportunity to re-submit applications based on the revised criteria	Agree	implemented and ongoing	This principle has been proactively adopted in implementation of Round One of Building our Regions. Timeframes would be affected if guidelines were changed after publication, however the department does not expect this to occur.
3. Assess the cost benefit analysis of applications prior to approval and announcement of projects. And rigorously check that the figures and assumptions show the project is viable. This should include an emphasis on councils' ability to fund the operating costs and on-going maintenance	Agree	implemented and ongoing	A detailed cost benefit analysis approach and due diligence process, undertaken prior to approval and announcement of projects, has been proactively implemented in Round One of Building our Regions.
4. Engage independent expertise on an as needs basis to give clear advice to decision-makers to inform the ranking of applications in terms of the grant criteria and program objectives	Agree	4th quarter 2015	A proposal to use existing standing offer arrangements (depending on the expertise required) to engage independent expertise and advice on project applications is being progressed.
5. Collect information from councils on both qualitative and quantitative benefits in project evaluation reports.	Agree	implemented	A benefits realisation framework, including identification of qualitative and quantitative data from Councils, has been proactively implemented in Round One of Building our Regions. This process (excluding TMR led road projects) is now a requirement within the project agreements.

7

Appendix B—Detailed distribution of funding

DSDIP approved 129 out of 425 applications received over the four rounds of the R4R program. Figure B1 shows the percentage of applications and funding approved, by council. The list is ordered from highest to lowest funding approved.

Figure B1— Distribution of Royalties for the Regions funding (excluding election commitments and strategic projects)

Council	Applications Number	Approved Number	Rate	Funding approved $ mil.	Average funds approved $ mil.	% of total
Maranoa Regional	22	10	45.5%	27.58	2.76	9.6%
North Burnett Regional	5	3	60.0%	24.21	8.07	8.4%
Banana Shire	19	5	26.3%	20.48	4.10	7.1%
Toowoomba Regional	13	4	30.8%	19.00	4.75	6.6%
Western Downs Regional	37	17	45.9%	17.64	1.04	6.2%
Livingstone Shire	8	2	25.0%	17.50	8.75	6.1%
Whitsunday Regional	5	3	60.0%	16.12	5.37	5.6%
Gladstone Regional	22	2	9.1%	14.05	7.02	4.9%
Central Highlands Regional	14	2	14.3%	13.00	6.50	4.5%
Mackay Regional	5	4	80.0%	12.54	3.13	4.4%
South Burnett Regional	3	2	66.7%	11.50	5.75	4.0%
Isaac Regional	10	3	30.0%	6.51	2.17	2.3%
Cloncurry Shire	8	3	37.5%	6.12	2.04	2.1%
Townsville City	7	2	28.6%	6.10	3.05	2.1%
Barcaldine Regional	17	3	17.6%	5.83	1.94	2.0%
Lockhart River Aboriginal Shire	1	1	100.0%	5.61	5.61	2.0%
Barcoo Shire	6	2	33.3%	5.39	2.70	1.9%
Fraser Coast Regional	8	2	25.0%	5.35	2.68	1.9%
Southern Downs Regional	6	3	50.0%	5.22	1.74	1.8%
Cook Shire	6	1	16.7%	3.50	3.50	1.2%

Council	Applications Number	Approved Number	Rate	Funding approved $ mil.	Average funds approved $ mil.	% of total
Richmond Shire	2	1	50.0%	3.38	3.38	1.2%
Bundaberg Regional	12	3	25.0%	3.35	1.12	1.2%
Gympie Regional	9	2	22.2%	2.73	1.36	1.0%
Blackall-Tambo Regional	7	5	71.4%	2.54	0.51	0.9%
Napranum Aboriginal Shire	5	2	40.0%	2.51	1.26	0.9%
Burdekin Shire	6	2	33.3%	2.33	1.17	0.8%
Northern Peninsula Area Regional	4	1	25.0%	2.28	2.28	0.8%
Murweh Shire	1	1	100.0%	2.20	2.20	0.8%
Mareeba Shire	6	3	50.0%	2.16	0.72	0.8%
Tablelands Regional	10	2	20.0%	1.94	0.97	0.7%
Quilpie Shire	5	3	60.0%	1.90	0.63	0.7%
Somerset Regional	9	3	33.3%	1.65	0.55	0.6%
Cairns Regional	6	1	16.7%	1.30	1.30	0.5%
Hinchinbrook Shire	2	1	50.0%	1.30	1.30	0.5%
Cassowary Coast Regional	1	1	100.0%	1.26	1.26	0.4%
Carpentaria Shire	17	1	5.9%	1.00	1.00	0.3%
McKinlay Shire	2	1	50.0%	1.00	1.00	0.3%
Rockhampton Regional	28	1	3.6%	1.00	1.00	0.3%
Balonne Shire	6	1	16.7%	0.90	0.90	0.3%
Lockyer Valley Regional	7	3	42.9%	0.85	0.28	0.3%
Diamantina Shire	7	2	28.6%	0.84	0.42	0.3%
Goondiwindi Regional	4	2	50.0%	0.80	0.40	0.3%
Etheridge Shire	4	1	25.0%	0.63	0.63	0.2%
Boulia Shire	3	2	66.7%	0.59	0.29	0.2%

Council	Applications Number	Approved Number	Rate	Funding approved $ mil.	Average funds approved $ mil.	% of total
Charters Towers Regional	6	1	16.7%	0.54	0.54	0.2%
Mount Isa City	5	1	20.0%	0.50	0.50	0.2%
Aurukun Shire	4	1	25.0%	0.38	0.38	0.1%
Doomadgee Aboriginal Shire	3	1	33.3%	0.33	0.33	0.1%
Flinders Shire	8	1	12.5%	0.30	0.30	0.1%
Kowanyama Aboriginal Shire	4	2	50.0%	0.28	0.14	0.1%
Woorabinda Aboriginal Shire	3	1	33.3%	0.25	0.25	0.1%
Burke Shire	3	1	33.3%	0.18	0.18	0.1%
Bulloo Shire	4	1	25.0%	0.15	0.15	0.1%
Sub Total for councils funded	425	129	30.4%	286.5	2.22	100%
Other councils not funded	52	0	0%	0	0	0%
Total	**477**	**129**	**27.0%**	**286.5**	**2.22**	**100%**

Source: Queensland Audit Office

Appendix C—Regional benefits achieved

DSDIP tracked the benefits achieved by the projects. By analysing and compiling the benefits delivered by the individual projects DSDIP could report on the overall benefits of the Royalties for the Regions program.

Figure C1 lists the benefits currently collected by DSDIP. We have added some potential quantifiable benefits.

Figure C1—Listing of the projects benefits and potential measures

Program achievement	Qualitative benefits	Potential quantitative benefits not measured
64 Road projects totalling more than 282 kilometres. (R4R funding: $158 680 662)	Improved road safety and reduced accident risk	Accident statistics
	Increased road capacity—volume and vehicle size	Number of additional vehicles—Freight and commercial compared to private
	Improved access and reduced journey times	Journey time reduction—Number of hours/minutes
	Attracts tourism	Number of additional tourists Average length of overnight stay
	Improves regional supply chains	
	Support jobs	
Upgrades to 16 regional airports—including improvements to terminal facilities and runways. (R4R funding: $34 323 902)	Improved safety for landing/ take-off	
	Increased size of aircraft that can use airport	Average percentage increase in aircraft size
	Increases terminal passenger capacity	Number of additional passengers
	Increases airport use (including RFDS)	Number of additional flights Freight quantities Landing fee revenue
	Attracts tourism	Number of additional tourists
	Supports jobs	Number of jobs
20 flood mitigation projects—reducing the risk of flooding for 635 business and residences in Toowoomba and Roma alone. (R4R funding: $31 075 882)	Reduced flood risk and projected flood levels for future events	
	Reduced number of properties and areas inundated during future events	Number of properties protected
	Improved accessibility during flood events	
	Reduced insurance premiums	Average percentage decrease in premiums
	Improved safety	

Program achievement	Qualitative benefits	Potential quantitative benefits not measured
	Supports jobs	Number of jobs from new business opportunities
35 water, sewerage and waste management projects across regional Queensland. (R4R funding: $67 315 602)	Increased processing/ flow capacity to service larger population	Average percentage increase in processing/ flow capacity
	Improved treated water quality	Average percentage increase in water quality
	Improved hygiene and safety	
	Improved compliance with licencing requirements	Average percentage compliance improvement
	Supports jobs	Number of jobs
18 diverse community infrastructure projects. (R4R funding: $18 541 758)	Increased community services/ facilities	Number of additional services/ facilities
	Increase venue/ attraction capacity	Average percentage increase in capacity
	Attracts tourism	Number of additional tourists.
	Supports jobs	Number of jobs.

Appendix D—Program guidelines

Royalties for the Regions Guidelines

The Department of State Development, Infrastructure and Planning developed a number of guidelines to administer the Royalties for the Regions program. Figure D1 list the various guidelines including the dates they were approved. There were no guidelines for the election commitments.

Figure D1
Guidelines for administering the Royalties for the Regions Program

Title	Approved by	Date approved
Floodplain Security Scheme Guidelines Resource Community Building Fund Program Guidelines	D. Edwards Director-General	24/08/2012
Royalties for the Regions program 2012-13 ▪ Roads to Resources Program Guidelines	D. Edwards Director-General	unconfirmed
Queensland disaster mitigation and resilience funding guidelines 2013–14	Hon. Jeff Seeney MP	13/06/2013
Royalties for the Regions Program guidelines - Round Two	D. Edwards Director-General	16/06/2013
Royalties for the Regions Program guidelines - Round Four	Hon. Jeff Seeney MP	20/08/2014
Recreational Rail Trails Grants Program Guidelines	Hon. Jeff Seeney MP	17/04/2014
Royalties for the Regions Strategic Projects Fund	Hon. Jeff Seeney MP	13/11/2014

Source: Queensland Audit Office

Appendix E—Different types of grants

A 'grant' is a generic term applied to funding or other incentives provided to individuals or bodies (including community groups, statutory bodies or commercial enterprises) that exhibit some, or all, of the following characteristics:

- a transfer to a recipient which may be in return for compliance with certain terms and conditions
- a transfer which may not directly give approximately equal value in return to the Government (that is, there is a non-exchange transaction or subsidisation), and
- a recipient may have been selected on merit against a set of program-specific criteria.

Grants can be in the nature of incentives, donations, contributions, debts forgiven, rebates, tax relief and other similar funding arrangements, and may be in the form of cash or other property.

Figure E1
Different types of grants

Grant type	Characteristics	Procurement	Example
Competitive	▪ Program objectives are set by Government. ▪ Eligible entities compete for limited funding through applications. ▪ Applications are assessed against criteria. ▪ Entities receive the funding conditional to meeting grant requirements. ▪ Funds are acquitted.	Can be delivered by councils or tendered out to subcontractors through competitive tenders.	Royalties for the Regions (R4R)
Formula based	▪ Planning priorities and project specifications are determined by government. ▪ The tenders are assessed to ensure value for money. ▪ Successful tenderers are engaged in short to medium term contracts.	Major projects greater than $2.5 million, must go to market for competitive bids. Private contractors, developers, government departments and local governments submit tenders.	Transport Infrastructure Development Scheme (TIDS)
Tax refund	▪ Not competitive, all eligible entities can claim the refund. ▪ Specific to tax year ▪ Limits set on maximum amount of claim. ▪ Specific criteria on eligible expenses.	Not applicable.	Small business tax deduction $20 000 - Australian Government

Source: Queensland Audit Office

Appendix F—Former minister's responses on preliminary report to Parliament

JEFF SEENEY MP
MEMBER FOR CALLIDE

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Our ref: 151016/R4RAudit/JW

Friday, 16 October 2015

Mr Andrew Greaves
Auditor-General
PO Box 15396
CITY EAST QLD 4002

Dear Mr Greaves

A preliminary draft of your report in regard to the Royalties for Regions program was received by registered mail at my office on 15th October 2015.

In the covering letter you indicate you require any comments from me as the former Minister responsible for the program by 16th October 2015.

While it is very difficult to respond comprehensively in 24 hours there are a number of fundamental issues that I would draw your attention to.

The Nature of the R4R program

The preliminary draft report completely misunderstands and misrepresents what the R4R program was about with comments such as:
""The Government designed the program as a competitive grants program" page 2

This basic assumption is factually and fundamentally wrong as R4R was never designed as a competitive grants program.

Conducting an audit from a fundamentally wrong starting perspective has understandably produced a preliminary draft report that is grossly misleading and fundamentally flawed.

This distinction that R4R was not a Local Government grants program has been made many times in public debate especially with local Government representatives who not surprisingly would have preferred R4R to be a Council grant program in the traditional sense.

The R4R program was instead designed to provide a multi-channel conduit to invest a proportion of the royalties the State received in infrastructure in regional Queensland using a number of funding pathways of which local Councils identified projects was but one.

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The issue of Costs Benefits Analysis

The R4R concept both in Queensland and Western Australia had its genesis in the recognition that regional communities, especially smaller communities, were always going to miss out in Government funding programs using rigid cost benefit analysis as a basis for prioritising infrastructure investment.

A critical part of the Government's intention in the decision to establish R4R was to provide funding for projects that were important to regional communities but had not or could not be funded under normal Departmental programs prioritised using standard cost benefit analysis processes.

The Governments recognition that prioritisation of projects had to be based on more than a rigid cost benefit analysis was also a critical part of allocating funding within the R4R program.

This necessarily involved a deliberate decision by Government to adopt a higher than normal degree of subjective assessment especially in the comparison of projects in large regional centres such as Rockhampton, Mackay and Gladstone with projects in small communities like Miles, Karumba and Birdsville.

The need for accountability in this more subjective decision making process was recognised in the pilot round of funding. Despite the earlier *Royalties for Regions Framework* specifying that I as Minister approve the proposals I personally took the decision after round one to ensure future R4R funding decisions progressed through three stages and involved the full Cabinet.

This process involved myself as the responsible Minister considering the Departments objective assessment and taking recommendations based on a more subjective analysis to the Property and Infrastructure Cabinet Committee whose decisions were then considered by the full Cabinet for ratification.

Adopting a completely objective and rigid cost benefit analysis assessment approach would have defeated the purpose of the R4R program as funding would have been entirely taken up by the larger regional cities and smaller communities would have continued to receive no infrastructure funding.

I do however take the point that the reasoning involved in more subjective decision making needs to be more thoroughly documented to avoid accusations of bias.

Allocation by Political Party

I am somewhat perturbed that the preliminary draft report should seek to conduct an analysis based on areas represented by political parties. At no time was such an analysis given any consideration in the R4R process.

I disagree completely that "*the distribution of funding across party electorates*" (page 34) is any test of "*the equity and impartiality of decision making*" (page 34) in the R4R process.

Not only did one party hold the majority of the eligible electorates at the time those electorates held by the ALP were largely restricted to the large urban centres of Rockhampton, Gladstone and Mackay which were often judged to have the resources to fund their own projects.

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These large Councils also had the resources to prepare a much greater number of applications with Rockhampton for example lodging 28 applications and Gladstone lodging 22 applications in the four rounds.

Please consider this an interim response as I have had the report for less than 24 hours and please feel free to contact me if you require any further information.

Yours sincerely

Jeff Seeney MP
Member for Callide

Proudly representing the Shire and Regional Councils of: Banana, Bundaberg (part of), Cherbourg, Western Downs (part of), Gympie (part of), North Burnett and South Burnett. (part of)

JEFF SEENEY MP

MEMBER FOR CALLIDE

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Our ref: 151023/R4RAudit/JW

Friday, 23 October 2015

Daniele Bird
Assistant Auditor-General
Performance Audit Services
PO Box 15396
CITY EAST QLD 4002

Dear Daniele

Thank you for providing me with an additional 7 days to respond to the preliminary audit report in relation to Royalties for Regions.

After rereading this document a number of times I have concluded that it is pointless me responding in any detail to the specifics in the report as the majority of those specific statements, findings and recommendations are based on starting point assumptions that are completely wrong.

It is understandable that after a change of Government the current Minister and his officers will continue to try to misrepresent and discredit the Royalties for Regions program to justify the decision they took to discontinue it.

I of course will engage in that political argument with them rather than with you or the Auditor General's Office.

I will however in response to your email reiterate the actual facts about the elements of Royalties for Regions that have been misrepresented in the preliminary report and I will table all of my responses to you in the Parliament on the same day you table your report.

Royalties for Regions was a pre-election commitment aimed at funding infrastructure in Regional Queensland with a very deliberate focus on identifying projects that were important to the liveability and economic future of local regional communities but had not been able to be funded from existing Departmental budget processes or Local Government resources.

During the election campaign a number of projects were publicly identified as future R4R projects and Blakey's crossing in Townsville and the Toowoomba inner city ring road are two examples.

A number of other projects were subsequently identified for funding from the R4R fund by the Cabinet Budget Review Committee (CBRC) process when Departments made their budget submissions to Treasury for funding.

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The majority of projects in the early rounds of R4R however were identified by local councils in regional Queensland indicating the critical need for such a funding program in smaller regional communities.

The Government made a deliberate decision not to adopt a traditional competitive grants model because we believed that such grants schemes were subject to misuse by Councils who were prone to exaggerate the costs of projects for grant applications to cross subsidise their own inefficiencies.

The Government decided that the default position for delivering R4R projects would be by open market tender to achieve best value for all money allocated to the R4R fund and it is fair to say that decision caused a degree of dissatisfaction in some Councils and State Government Departments that persists to this day.

Local councils were given an opportunity to identify projects in their own areas for consideration for funding from the fund and if those projects were subsequently funded from the R4R fund Councils were then given the opportunity to either tender for the job or project manage the job.

On no occasion of which I am aware were councils or Government departments ever paid R4R money as a grant.

In a number of cases local councils identified projects that, once funded, were then tendered by, and project managed by, State Government Departments. Examples include the Bowen Development road and the Mt Perry road.

There were a large number of projects identified by councils in the early rounds of R4R with some councils continuing to expect R4R to operate as a traditional grants program and some large regional city councils such as Gladstone, Rockhampton and Mackay with professional "grants officers" on staff submitting a disproportionate number of projects.

Not surprisingly a significant number of these projects submitted by large regional city councils were judged to be able to be met from the city councils significant existing resources.

An R4R framework was compiled by DSDIP to provide guidance to councils in regard to the type of project that would be most likely to be funded from the R4R fund and council identified projects were assessed against the guidelines in this framework.

However, many times I publicly invited councils, especially smaller councils, to submit any projects that they believed improved the liveability and economic prospects of their smaller regional communities.

Consequently it should not be surprising that a proportion of the projects fell outside the original guidelines in the framework.

The projects that Cabinet and the Cabinet Budget Review Committee decided should be funded from the R4R fund using the R4R open tender model rather than additional Departmental funding were referred to DSDIP for funding and delivery through the R4R model after the decision was made.

DSDIP was not asked to assess these Cabinet/CBRC projects against the guidelines prepared for Councils nor did they have the authority to do so once Cabinet/CBRC had made their decision. DSDIP's role was to deliver these projects in an efficient manner within the R4R open tender model which was not well accepted by other Departments.

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I, as the Minister, was initially given the responsibility for approving projects other than those already approved by Cabinet or CBRC.

The pilot round identified clearly the need for a degree of subjectivity in the approval process if R4R was to achieve its aims of funding locally important infrastructure in Regional Communities that had not or could not be funded from traditional sources.

Subsequently to ensure a higher level of accountability and transparency I, as Minister, took the decision after the pilot round to implement a three stage approval process that ensured projects were assessed objectively by DSDIP and then submitted by me to the Property and Infrastructure Cabinet Committee before proceeding to the full Cabinet for final approval.

Round one or the pilot round was the only time I approved projects alone and even then I convened an informal group of Ministers and backbenchers from regional Queensland to consider the final approvals list.

I trust this information is of assistance to you in better understanding how R4R operated and enables you to prepare a more creditable audit report on the processes involved in its delivery.

I would be particularly interested to see an audit of the R4R open tender process to ascertain the effectiveness of what was a very unpopular model among councils and departments in achieving best value for money.

If I can be of any further assistance please do not hesitate to contact me at any time.

Yours sincerely

Jeff Seeney MP
Member for Callide

Proudly representing the Shire and Regional Councils of: Banana, Bundaberg (part of), Cherbourg, Western Downs (part of), Gympie (part of), North Burnett and South Burnett. (part of)

Appendix G—QAO's response to former minister

Your ref: Mr J Seeney MP
Our ref: 2015-9132P
Daniele Bird 3149 6023

4 November 2015

Queensland Audit Office

Mr Jeff Seeney MP
PO Box 559
Biloela Qld 4715

IN-CONFIDENCE

Dear Mr Seeney

Performance Audit Royalties for the Regions

Thank you for your feedback on the preliminary draft of the performance audit on Royalties for the Regions. You raised a number of issues in your responses. We have considered the main ones and analysed them for their consistency with the evidence we have been provided from the Department of State Development and the Department of the Premier and Cabinet.

The proposed report is now provided for your information and comment. Also included for your information is an acquittal of the issues raised in your response to the preliminary draft and our analysis of them (see Appendix A).

Section 64 of the Auditor-General Act 2009 (the Act), provides for any comments on the proposed report to be given to the Auditor-General in writing within 21 days after the advice is received. Therefore any comments you may have in relation to the proposed report are required no later than 25 November 2015. Comments received within 21 days will form part of my report to Parliament, which is scheduled to be tabled in early December 2015.

I draw your attention to the provisions of section 65 of the Act, which impose a confidentiality requirement on the recipient of a proposed report until the finalised report is tabled in Parliament.

A copy of the proposed report to Parliament has also been provided to:

- Mr Schaumberg, the Director-General, Department of State Development
- the Honourable A Lynham MP, Minister of State Development and Minister for Natural Resources and Mines,
- the Honourable C Pitt MP, Treasurer, Minister for Employment and Industrial Relations and Minister for Aboriginal and Torres Strait Islander Partnerships
- Mr J Murphy, Under Treasurer for their responses
- the Honourable A Palaszczuk, Premier of Queensland and Minister of the Arts
- Mr D Stewart, Director-General, Department of the Premier and Cabinet.

Yours sincerely

Andrew Greaves
Auditor-General
Enc.

Appendix A

They key issues you raised

1. You represent that:

   a. *"the preliminary draft report completely misunderstands and misrepresents what the R4R program was about……. The basic assumption is factually and fundamentally wrong as R4R was never designed as a competitive grants program*". And "*On no occasion of which I am aware were councils or Government departments ever paid R4R money as a grant*".

   b. *"The Government decided that the default position for delivering R4R projects would be by open market tender to achieve best value for all money allocated to the R4R fund and it is fair to say that decision caused a degree of dissatisfaction in some Councils and State Government Departments that persists to this day."*

2. You assert that you gave greater emphasis to applications from small communities such as Miles, Karumba and Birdsville compared to larger councils such as Gladstone, Rockhampton and Mackay. This was based on assumptions that:

   a. larger councils submitted disproportionately greater numbers of projects

   b. smaller councils did not have professional grant officers and therefore did not have the expertise to develop sound project applications and rigorous cost-benefit analysis

   c. larger regional councils were judged to be able to meet the costs of projects from their own significant existing resources.

3. The previous government took legitimate decisions to fund election commitments from round one of R4R funds.

4. You believe that the Royalties for the Regions Strategic Project Guidelines did not apply as "*The special and strategic projects referred to are projects that had been submitted by Departments to CBRC for funding from Treasury but which CBRC had assessed and decided should be funded from R4R in the later rounds.*"

Our analysis of the evidence and proposed changes to the report

1. R4R was never designed as a competitive grants program

Your statement that that R4R was not designed or implemented as a competitive grants program is not supported by the evidence we have available to us.

We acknowledge that 18.4 per cent of the funding committed to R4R was set aside for election commitments. We make it clear we have not assessed the funded election commitments in the report. Of the remaining funds, 25.4 per cent was used for strategic and other projects, leaving 56.2 per cent for the council component of the program.

We note that grant guidelines were established both for the council and the strategic program components. The following documents state explicitly that "Royalties for the Regions <u>is a competitive grants program</u> with no guarantee that all eligible local governments will receive funding" (see table below).

Title	Approved by	Date
Royalties for the Regions Program guidelines - Round Two	Director-General	16/06/2013
Royalties for the Regions Program guidelines - Round Four	Hon. Jeff Seeney MP	20/08/2014
Recreational Rail Trails Grants Program Guidelines	Hon. Jeff Seeney MP	17/04/2014
Royalties for the Regions Strategic Projects Fund	Hon. Jeff Seeney MP	13/11/2014

In addition, the following evidence supports R4R being implemented as a grants program:

- The revised framework for the Royalties for the Regions Program Framework approved by Cabinet states that "*As Royalties for the Regions is a competitive grants program ………*"
- The Brief of decision you approved on 5/2/2013 for the round one projects identifies R4R as a grant program.
- An internal audit report on Royalties for the Regions in May 2013 was an assessment of the DSDIP grants process - including project application, evaluation, funding, monitoring and notice acquittal.
- Only councils could submit applications. The applications were managed through the DSDIP Grant Management System.
- The Department of Local Government who paid the grants to councils, treated the R4R funding as a grant in its financial statements.
- In response to question on No.810, asked in parliament on 31 October 2013, you replied that "Royalties for the Regions is a competitive grants program……. Applications are assessed and prioritised in line with criteria outlined in the program guidelines."

We can find no reference in the R4R frameworks, guidelines or contracts to the term '*open market tender process*'.

Our understanding is that individual councils or departments ran their own procurement of the goods and services in accordance with local or state procurement policies. The procurement decision for councils and the Department of Transport and Main Roads were not a part of the program design. Royalties for the Regions did not have its own specific procurement conditions. The sub-agreements refer to existing standard government procurement policies.

Royalties for the Regions grants were paid to successful councils by the Department of Local Government, Community Recovery and Resilience (DLGCRR). The grants payment process was as follows:

- DSDIP approved (generally) a 10 per cent initial payment up-front to councils
- Councils submitted invoices for work completed by council or its sub-contractor at key agreed milestones from the contract and were reimbursed
- Unspent funds were retained by DSDIP
- Councils acquitted the project to DSDIP at completion.

This is not an open market tender process.

QAO proposed action

We have clearly identify the component of the R4R funding assessed as a grants program and include an additional appendix in the report to parliament showing the different types of grant programs, including examples. We have made a clear distinction between a competitive grant (R4R) and a program that uses an open market tender procurement process, for example the Transport Infrastructure Development Scheme. See page 54 of the proposed report.

2. ***Emphasis on applications from small councils***

The published program guidelines did not include additional weighting or favouring of applications from small councils. However, DSDIP officers and council staff did report that help was provided to councils when requested.

We analysed of the applications submitted, assessed and approved by council size and found that:

- Large and medium sized councils did submit proportionally more applications than very large or small and indigenous councils.
  - Large and medium councils submitted 9 applications each on average
  - Small and Indigenous councils submitted 4 applications each on average
- Applications from small councils do not appear to have been of a lower standard compared to medium, large or very large councils. DSDIP assessed applications from small councils as just as strong or suitable as medium or large councils:
  - All councils, regardless of size, had between 31 to 44 per cent of their applications assessed as minimal and 56 to 69 per cent of their applications assessed as suitable/strong
  - DSDIP assessed 67 per cent of applications from small councils as strong and 69 per cent of applications from large councils as strong.
- The number and value of projects approved in small councils does not indicate they were favoured over medium and large councils:
  - Very large councils made up 15 per cent of the councils that applied and received 14 per cent of the funding
  - Large councils made up 24 per cent of the councils that applied and received 42 per cent of the funding
  - Medium councils made 18 per cent of the councils that applied and received 33 per cent of the funding
  - Small councils made up 43 per cent of the councils that applied and received 11 per cent of the funding.

- It is not clear how you judged the ability of large councils to fund projects from their own budgets. We analysed the average operating surplus ratios of very large and large councils over the last five years. The analysis showed that 29 large and very large councils applied for projects. Of these 20 councils had negative average operating surpluses. This would not indicate that large or very large councils are necessarily able to fund infrastructure projects without state government support.

QAO proposed action

We have included a table in the report to parliament showing the application, assessment and approval rates by council size. See Figure D page 5 in the proposed report.

3. ***The previous government took legitimate decisions to fund election commitments from round one of R4R funds***

The report does not question the decisions to fund the election commitments. The report does not assess if the election commitments were value for money. The report examines the applications submitted by councils in response to the approved Royalties for the Regions Program grant guidelines issued (August 2012) after the election.

QAO proposed action

The following statements or amendments are extracts from our report to parliament that make it clear that we excluded the election commitments from the audit:

- Page 1 - "In this audit, we examined the assessment, approval and allocation of funds under the R4R competitive grants program and the strategic and other projects to determine how effectively and efficiently they contributed to improving regional community sustainability and resilience. We did not audit the election commitments funded by the R4R program."
- Page 2 - "A minister is not compelled to accept the advice of their department and is entitled to allocate funds in line with executive authority granted through the Constitution."

- Page 3 - The table (Figure B) has been amended to remove the election commitments from the total funds available.

4. ***Royalties for the Regions Strategic Project Guidelines***

DSDIP developed the *Royalties for the Regions - Strategic Project Guidelines* to ensure approved projects aligned with the objectives of the R4R program. You approved them on 13 November 2014.

As the strategic projects were not assessed against the program criteria there is a risk that other criteria were used to approve them. This leaves them open to questions of political influence. The fact that they were all in government held electorates raises further questions about why they were not assessed.

QAO proposed action

Based on an analysis of the data we are not inclined at this stage to revise our view about the assessment of the strategic projects.

Conclusion

We note in your response that you agree that the lack of documentation to support the subjective decisions made in the allocation of R4R funds needs to be more thoroughly documented to avoid accusations of bias.

We note also that you intend to table your correspondence in Parliament on the same day this report is tabled. In the interests of transparency an appendix will be added to the report with copies of:

- all your correspondence
- correspondence to you, including this letter.

Appendix H—Audit methodology

Audit objective

The objective of the audit was to assess the impact of the Royalties for the Regions program on regional economic sustainability and resilience.

The audit addressed the objective through the lines of inquiry set out in Figure H1.

Figure H1
Audit Scope

	Lines of inquiry		Audit criteria
1	The Royalties for the Regions grants program is administered efficiently and effectively.	1.1	The published program criteria to assess grant applications are specific and unambiguous.
		1.2	The applications (EOIs) are prioritised based on a rigorous assessment against the published criteria.
		1.3	Funding is allocated to projects prioritised as having the most value.
		1.4	Grants are monitored and acquitted.
2	The Royalties for the Regions grants infrastructure projects are delivering value for money to support regional economic sustainability and resilience.	2.1	Benefits for each grant are clearly established by councils.
		2.2	Benefits are demonstrably realised.

Source: Queensland Audit Office

Reasons for the audit

Over a four-year period that started in 2012, the program was to invest $495 million in new and improved community infrastructure, roads and floodplain security projects that benefit those who live, work and invest in our resource regions.

The program's main focus is on supporting infrastructure projects that respond to critical community needs that have resulted from resource sector activity. In short, the program is designed to return wealth to the regions where it is generated to help local councils cope with the toll mining activities take on critical infrastructure.

The Royalties for the Regions program has been designed to:

- improve the liveability and amenity of regional communities, making these communities more attractive places in which to live and work
- help regional communities become more economically sustainable and resilient
- support development that reflects the aspirations of regional communities
- attract additional funds from all levels of government and the private sector for critical infrastructure projects and encourage greater private sector investment in the regions.

The program was replaced with a new program "Building our Regions", with a commitment of $200 million each year.

Performance audit approach

We conducted this audit in accordance with the Auditor-General of Queensland Auditing standards, which incorporate Australian Auditing, and Assurance Standards.

We conducted the audit between February and November 2015. The audit consisted of:

- interviews with officers from
  - Department of State Development
  - Department of Transport and Main Roads
  - Department of Infrastructure, Local Government and Planning
  - a sample of councils.
- visits to a sample of councils and projects sites to interview council officers and review grant application, assessment and agreement files
- analysis of information including:
  - briefs of decisions
  - moderation assessments
  - project information captured on the grant management system
  - legislation and policy frameworks
  - strategies and plans
  - program guidelines
  - State Electoral Commission information
  - council financial information
  - grant funding budget reconciliation and program project status reports.

Evaluation of council procurement processes for goods and services procured in terms of the projects funded through the Royalties for the Regions program did not form part of this audit.

Auditor-General Reports to Parliament

Reports tabled in 2015–16

Number	Title	Date tabled in Legislative Assembly
1.	Results of audit: Internal control systems 2014–15	July 2015
2.	Road safety – traffic cameras	October 2015
3.	Agricultural research, development and extension programs and projects	November 2015
4.	Royalties for the Regions	December 2015

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