

# ***Regional Growth Fund: Outcomes and Learnings***

Tabled 16 September 2015

The Auditor-General provides assurance to Parliament on the accountability and performance of the Victorian Public Sector.

The Auditor-General conducts financial audits and performance audits, and reports on the results of these audits to Parliament.

On 16 September 2015, the Auditor-General tabled his performance audit report, *Regional Growth Fund: Outcomes and Learnings*.

## Overview

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- Regional Growth Fund (RGF) provided significant grants to drive regional development and address challenges in regional Victoria.
- The audit found:
  - weaknesses in design and implementation mean value for money and achievement of RGF goals to date cannot be demonstrated
  - reported outcomes are potentially misleading.
- Improved transparency in grant processes and robust evaluation activities are needed to provide assurance on value for money and to accurately report on outcomes

The Regional Growth Fund, or RGF, provided grants for development of regional Victoria over the past four years.

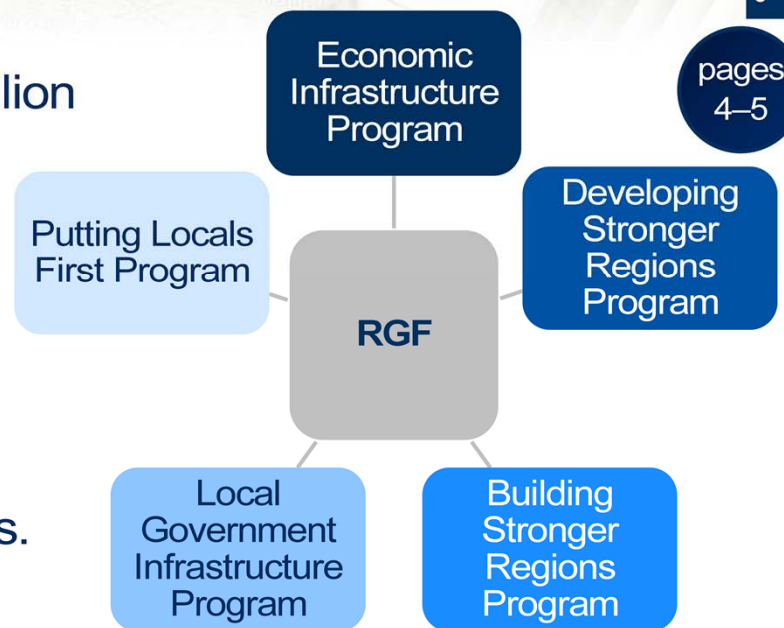
The audit found that there were weaknesses in the design and implementation of the RGF which means the Department of Economic Development, Jobs, Transport and Resources, or the department, cannot demonstrate value for money or the achievement of RGF goals to date.

The audit also found that the outcomes being attributed to and reported are not accurate and inflate the RGF's achievements.

There is a need to improve transparency in the funding process, and develop and implement a robust monitoring and evaluation framework that accurately reports on outcomes and provides assurance that value for money is being achieved.

## Background

- RGF allocated \$570 million over four years.
- Provided funding to local councils, private businesses and other government agencies.
- Five main sub-programs.



The RGF allocated \$570 million over four years for funding to local councils, regional infrastructure projects, private businesses and other government agencies.

It had two long-term goals relating to developing a prosperous Victoria and improving the quality of life of regional Victorians.

The RGF had five main sub-programs as shown on this slide.

## Background – *continued*

<b>Economic Infrastructure Program</b>	<ul style="list-style-type: none"> <li>• Funding for regional infrastructure projects</li> <li>• \$295 million funding allocated—including \$124 million for Energy for the Regions Program</li> </ul>
<b>Local Government Infrastructure Program</b>	<ul style="list-style-type: none"> <li>• Formula based funding to regional and rural councils for local government infrastructure projects</li> <li>• \$100 million funding allocated</li> </ul>
<b>Putting Locals First Program</b>	<ul style="list-style-type: none"> <li>• Funding to address gaps in services and infrastructure in rural communities</li> <li>• \$101 million funding allocated</li> </ul>
<b>Developing Stronger Regions Program</b>	<ul style="list-style-type: none"> <li>• Funding to conduct studies to investigate the viability of projects</li> <li>• \$8 million funding allocated</li> </ul>
<b>Building Stronger Regions Program</b>	<ul style="list-style-type: none"> <li>• Funding to deliver government's election commitments</li> <li>• \$66 million funding allocated</li> </ul>

This slide provides an overview of the RGF sub-programs.

The three significant programs were:

- The Economic Infrastructure Program that provided funding for regional infrastructure projects allocating \$295 million. This included \$124 million for the Energy for the Regions Program that involves the supply of natural gas to regional towns.
- The Local Government Infrastructure Program that allocated \$100 million to regional councils.
- The Putting Locals First Program that provided approximately \$101 million for gaps in services and infrastructure in rural communities.

## Focus of this audit

### Key areas examined

- Implementation of previous VAGO recommendations
- Achievement of value for money and intended outcomes
- Lessons learnt are being applied to the new Regional Jobs and Infrastructure Fund

### Audit scope

- Regional Development Victoria
- Department of Economic Development, Jobs, Transport and Resources (the department)
- Activities from 2011 to June 2015

This audit examined:

- how our previous recommendations, from the 2012 *Management of the Provincial Victoria Growth Fund* report, had been implemented by the department
- whether value for money and intended outcomes were being achieved by the RGF,
- how the lessons learnt were being applied to the new Regional Jobs and Infrastructure Fund.

The audit scope included Regional Development Victoria as the main agency within the department. Activities from 2011 to June 2015 were covered in the audit.



## Grant processes

- Pipe-line grants model was primarily used—non-competitive model
- Process of short-listing of applications was not robust—especially for the infrastructure program
- The Putting Locals First Program had a better process with project proposals being documented

**Limited assurance that the best possible projects were short-listed.**

The department primarily used a pipe-line grants model that requires a high degree of transparency in pre-application processes, as projects are not selected through an open or competitive process.

Applications were only provided to potential recipients after undertaking pre-application discussions.

We found that the pre-application processes for the major Economic Infrastructure Program were not documented and lacked evidence upon which to base funding decisions.

For the Putting Locals First Program, there was better documentation with evidence of pre-application discussions.

## Assessment processes

- Funding assessment decisions included a degree of subjectivity.
- Weighted criteria, benchmarks and targets not applied to all programs.
- Value-for-money considerations were not evident.

**The assessment process was not robust and value-for-money considerations were not evident.**

We found that the assessment process included a degree of subjectivity. Weighted criteria and targets were not applied to all programs or used consistently when they did exist.

Our ability to assess the value-for-money considerations at the assessment stage was limited because of:

- a lack of comparable data,
- insufficient benchmarks and targets
- and the lack of documentation of the pre-application process for the Economic Infrastructure Program.

This is significant given that almost all applications received were approved for funding.

## Monitoring and evaluation activities

- An effective evaluation framework was not developed.
- Limited monitoring and reporting of outcomes.
- Heavy reliance on the external consultant for evaluation activities.

**Evaluation activities were not effectively managed and to date there is no evaluation of RGF outcomes.**

The department did not develop and implement an effective monitoring and evaluation framework in a timely manner, and the framework required a substantial revision after 18 months.

Limited monitoring and reporting of outcomes was undertaken and the department placed a heavy reliance on an external consultant to evaluate the RGF, and still there is no evaluation of RGF outcomes.



## Outcomes reporting

- Unrealistic attribution of jobs and investment outcomes.
- Inflated outcomes included in Budget Paper 3 (BP3) and ministerial reporting.

Over 1 000 jobs reported in BP3 over four years

Over 6 000 direct jobs reported in ministerial report

Only 167 jobs actually created to date

**Outcomes reported are potentially misleading and do not provide an accurate reflection of RGF achievements.**

Despite limitations with evaluation the department has reported significant achievements for jobs and investments.

However, the job and investment outcomes reported by the department are potentially misleading as they inflate the actual achievements of the RGF.

We found that reported job numbers primarily relate to expected, rather than actual jobs created. For example, in ministerial reports the department claimed the RGF is expected to create over 6000 direct jobs, and in Budget Paper reporting the department stated that over 1000 jobs were created as a result of the RGF to date. Whereas, the actual jobs created and verified to date are 167.

## Outcomes reporting – examples (jobs)

Project	RGF funding (\$ million)	Total project cost (\$ million)	RGF funding (per cent)	Total claimed direct jobs
Milk processing plant	0.25	38.00	0.70	52
Infrastructure for site	2.85	270.00	1.10	780
Biomass power plant	3.00	174.00	1.70	25
Aged care project	0.42	22.00	1.90	100
Milk plant development	1.50	42.05	3.60	45
Fruit export project	0.04	1.00	3.60	6
Ground expansion project	0.15	4.00	3.80	12

It is also doubtful all job and investment claims are directly attributable to the RGF.

This table shows a selection of projects that received a small amount of RGF funding.

However, the department claims all of the expected jobs for the entire project, not only those which could reasonably be attributed to the RGF.

## Outcomes reporting – examples (investment)

Project	RGF funding (\$ million)	Total project cost (\$ million)	Investment (\$ million)	Return per RGF dollars	Per cent leveraged
Milk processing plant	0.25	38.00	37.75	151.00	99.3
Infrastructure for site	2.85	270.00	267.20	94.74	98.9
Biomass power plant	3.00	174.00	171.00	58.00	98.3
Milk plant development	1.50	42.10	40.60	58.03	96.4
Fruit export project	0.04	1.00	0.96	27.78	96.4
Fresh food expansion	0.03	0.75	0.72	25.00	96.0
<b>Total</b>	<b>7.67</b>	<b>525.85</b>	<b>518.23</b>		

This table shows six projects which received a small portion of RGF funding compared to the total project costs, but all the funds were claimed as leveraged funds due to the RGF.

## Outcomes reporting – examples (investment)

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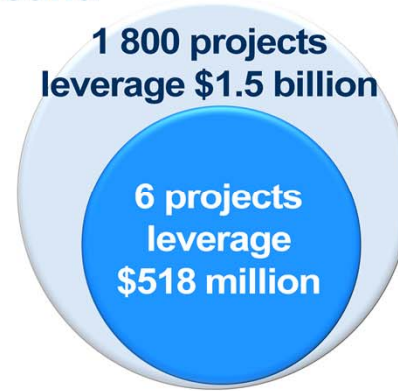
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### Reported



Funds leveraged ratio =  
\$3 for every RGF dollar

### We found



If these six projects were removed, funds  
leveraged ratio = \$2 for every RGF dollar

These six projects for which RGF provided only \$7.67 million are claimed to have leveraged \$518.23 million of funding.

If these six projects were excluded from the 1 800 projects that the RGF funded, the ratio of overall leveraged dollars falls from \$3 leveraged per \$1 of RGF funding to \$2 leveraged per \$1 of RGF funding.

## Recommendations

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		Accept
That, while developing and implementing the Regional Jobs and Infrastructure Fund and other future initiatives of a similar nature, the department:		
1	increases awareness of the initiatives to ensure the best possible projects are funded	?
2	implements robust governance arrangements, including an effective role for assessment committees in funding decisions	?
3	develops and documents detailed pre-application funding processes that are transparent and demonstrate that the best available applications are funded	?
4	implements identified risk management actions and plans	?

We have made nine recommendations that focus on the key areas requiring improvement.

Five recommendations relate to improving existing grant management processes.



## Recommendations – *continued*

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		Accept
That, while developing and implementing the Regional Jobs and Infrastructure Fund and other future initiatives of a similar nature, the department:		
5	implements robust monitoring and reporting systems and processes	?
6	develops a robust evaluation framework including relevant and appropriate performance measures, benchmarks, targets and baseline data	?
7	undertakes regular reviews and evaluation activities to demonstrate that grant initiatives are meeting their goals and objectives	?

Two recommend improving evaluation activities and two relate to demonstrating achievement of outcomes and value for money of the state's investment in the regions.

## Recommendations – *continued*

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Accept

That, while developing and implementing the Regional Jobs and Infrastructure Fund and other future initiatives of a similar nature, the department:

- |   |  |   |
|---|--|---|
| 8 | demonstrates the achievement of objectives by: <ul style="list-style-type: none"> <li>• monitoring and reporting on all outcomes of the initiative</li> <li>• developing guidelines, in line with better practice, for making appropriate adjustments to outcomes prior to reporting</li> <li>• accurately and fairly reporting outcomes attributable to the initiative</li> </ul> | ? |
| 9 | demonstrates the effective use of public money by: <ul style="list-style-type: none"> <li>• developing robust guidelines and frameworks to assess value for money establishing and effectively implementing benchmarks and targets for all programs</li> <li>• providing advice to government on value for money thresholds.</li> </ul>  | ? |

The Auditor-General is concerned that the department does not fully acknowledge the significant issues raised and reflected in his recommendations.

The Auditor-General urges the department to take action to fully address all of his recommendations and address the identified issues.

## Key messages

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**Limited assurance that the best possible projects were short-listed.**

**The assessment process was not robust and value-for-money considerations were not evident.**

**Evaluation activities were not effectively managed and to date there is no evaluation of RGF outcomes.**

**Outcomes reported are potentially misleading and do not provide an accurate reflection of RGF achievements.**

This slide summarises the key messages from the audit which are that:

- There was limited assurance that the best possible projects were short-listed.
- The assessment process was not robust and value-for-money considerations were not evident.
- Evaluation activities were not effectively managed and to date there is no evaluation of RGF outcomes.
- Outcomes reported are potentially misleading and do not provide an accurate reflection of RGF achievements.

## Overall message

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**The department cannot demonstrate it achieved value for money or expected outcomes from the state's investment through the RGF.**

In summary, the department cannot demonstrate it achieved value for money or expected outcomes from the state's investment through the RGF.

## Relevant audits

- *Management of the Provincial Victoria Growth Fund* (December 2012)

- *Management of the Provincial Victoria Growth Fund* is a relevant audit and was tabled in 2012.



## Contact details

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For further information on this presentation please contact:

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