Western Australian
Auditor General's Report

Ord-East Kimberley Development

Report 20: September 2016

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WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

Ord-East Kimberley Development

Report 20
September 2016

THE PRESIDENT
LEGISLATIVE COUNCIL

THE SPEAKER
LEGISLATIVE ASSEMBLY

ORD-EAST KIMBERLEY DEVELOPMENT

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

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

This audit provides an assessment of how effectively the Department of Regional Development has implemented the Ord-East Kimberley Development Plan and whether the intended socio-economic benefits were achieved.

I wish to acknowledge the staff of the Department of Regional Development, LandCorp and Department of State Development for their cooperation with this audit.

COLIN MURPHY
AUDITOR GENERAL
7 September 2016

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Auditor General's overview

The story of government involvement in developing the Ord region is a long one, and the $500 million Ord-East Kimberley Development Plan is the latest chapter. It combines economic development, capital works and social infrastructure, co-funded by the State and Commonwealth through Royalties for Regions and stimulus funding. It involved three main state government agencies, the Commonwealth, local government, Aboriginal community organisations and private companies. There was also a clear desire to get on with it and not miss this unanticipated opportunity to progress development in the Ord.

In that kind of environment, getting planning right, aligning governance to risks, and being clear about what benefits were to be achieved was not going to be easy, and was not entirely successful. Social and irrigation infrastructure have been delivered, and are being used, but it took longer and the cost to the State has been higher than planned. The economic and social impact has so far fallen short of targets. There is the prospect of further development in the future, but how and when that might be achieved remains uncertain, and the measures are not in place to track the benefits.

Government has a legitimate role in economic development. The nature and extent of that will vary from project to project and place to place. What does not change is the responsibility for agencies to get the planning right, achieve time and cost targets, and to be able to track and demonstrate the benefits that have been delivered.

Executive summary

Introduction

This audit assessed how effectively the Department of Regional Development (DRD) has implemented the Ord-East Kimberley Development Plan and whether the intended socio-economic benefits to the community were achieved. We also examined the role of LandCorp and the Department of State Development (DSD).

Background

The first stage of the Ord River Irrigation Area, which is based on the main dam at Lake Argyle, was completed in 1971 and services 14,000 hectares (ha) of farming land.

Since the mid-1990s, there have been several investigations into the potential of expanding the irrigation area. None of these progressed due to a number of issues including water availability, native title claims and environmental approvals.

In October 2005, the WA Government, the traditional owners and pastoral and agricultural interests signed the Ord Final Agreement that addressed native title and Aboriginal heritage issues. It also opened the way for development of land at Goomig, Knox, Mantinea, Packsaddle, Ord West Bank and Ord East Bank (Figure 1). However, after seeking expressions of interest from the market, development did not progress because proponents required major State-funded investment, estimated at $158 million for a 7,000ha development and up to $310 million for a 16,000ha development.

In 2008, Cabinet approved $220 million for expansion of the Ord project. In 2009, the State and Commonwealth governments agreed to co-fund a stimulus package for the Ord region through a National Partnership Agreement. This became the Ord-East Kimberley Development Plan (the OEKD Plan). The aim of the plan was to develop a sustainable and stronger economy and improve the socio-economic outcomes for Aboriginal people in the East Kimberley. It included 2 key projects:

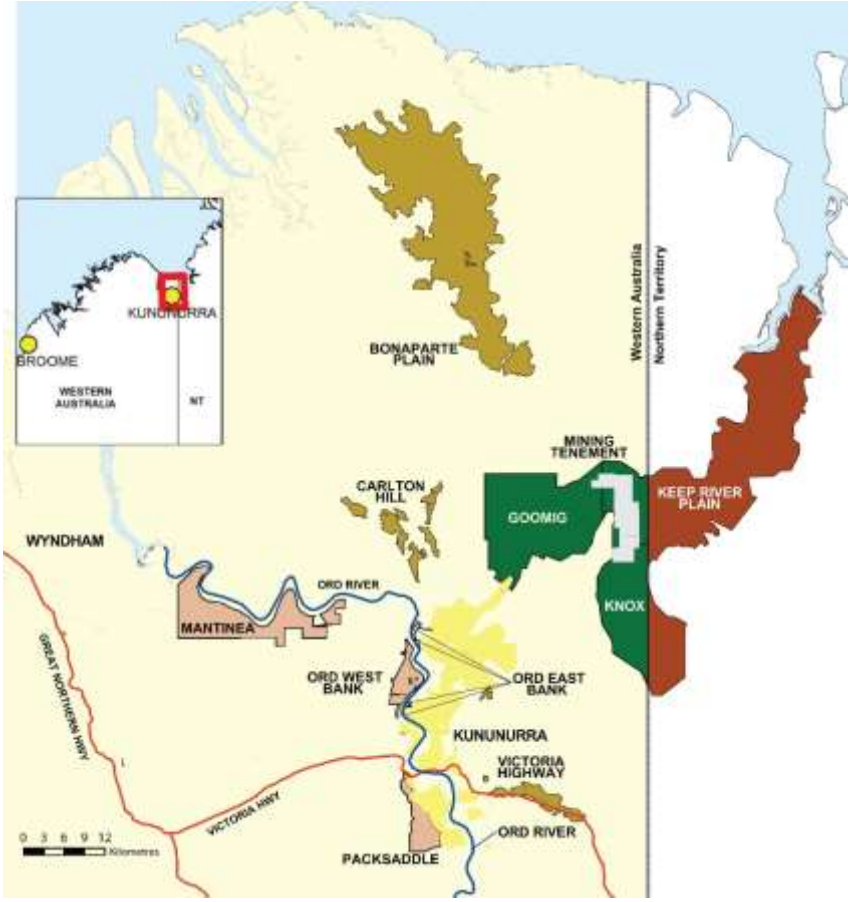
- Expansion of the Ord irrigation system at a cost of $220 million to be completed in 2011 which involved:
    - delivering water and road infrastructure to service about 8,000ha of land at Goomig
    - subdivision and sale of the 8,000ha in up to 25 lots
    - scoping for land at Mantinea (4,000ha), Ord West Bank (1,300ha) and Packsaddle (1,380ha), and work to consider land at Knox (8,000ha), Victoria Highway, Carlton Hill, Bonaparte Plain and the Keep River Plain (NT).
- A Commonwealth-funded building program costing $195 million for 27 social infrastructure projects, including new educational and health facilities by June 2010 (Appendix 1).

DRD was lead agency with some involvement from DSD. DSD coordinated 21 of the Commonwealth projects, with the remaining 6 delivered by the Shire of Wyndham-East Kimberley. The projects were completed by 2013.

LandCorp was the key project and contract manager for the irrigation expansion, and the subdivision and release of land at Goomig. Construction work began in May 2010 and infrastructure works were finalised in December 2014.

In 2012, the State selected a single proponent to develop the Goomig land parcel, with an option to develop Knox. The developer originally proposed a much larger sugar development,

but is now farming mainly chia on around 1,600ha of Goomig. Developers have also been identified for Mantinea, Ord West Bank and Packsaddle.



Source: DRD and OAG

Figure 1: Land parcels involved in the Ord expansion

Audit conclusion

Government modelling showed that to succeed, the Ord-East Kimberley Development Plan not only had to deliver physical assets, it had to improve social and economic outcomes for the region and its people. So far, results are mixed, though we recognise that deep and sustained improvement will take many years.

The expanded irrigation took 3 years longer than expected and cost $334 million, $114 million more than budgeted. Inadequate budgeting and costing, even when seeking an additional $91 million funding, led to the overrun. The 27 social infrastructure projects funded by the Commonwealth met its $195 million budget but took up to 3 years longer than planned.

Of the planned 8,000ha of land at Goomig, 7,000ha is available for farming, though only 1,600ha was under crop at June 2016. The plan to subdivide and sell up to 25 lots that would be ready for farming by 2012 did not succeed. The replacement strategy of leasing to a single large developer was reasonable, as was the process. However, it made negotiations more complex and the development lease is not yet in place.

The sustained social and economic benefits underpinning the decision to proceed with this $529 million investment have not been realised. Nor is there a plan to track and assess them. Considerable local and Aboriginal employment and training was created during construction but this has not been sustained. Other areas identified in the OEKD Plan are moving towards

development. If successful, they will increase economic activity and employment, but the extent of this is uncertain. While Government expects developers to fund any further infrastructure needs, it has not yet finalised processes to support this approach.

Key findings

Costs to the State have increased by $114 million

The original 2008 State budget to expand irrigation and support the Commonwealth projects was $220 million, funded through Royalties for Regions. Current estimates are that the cost will be $334 million, an increase of 52%.

Project costs have increased across the board. Construction went up by $59.2 million, project management and administration rose by $22.5 million and the cost to build and operate a workers camp for the project increased by $14.1 million. Legal costs are currently $3.7 million higher and environmental costs have gone up by $7.9 million. To cover these increased costs, Cabinet approved $91 million in extra funding through Royalties for Regions, and DSD transferred $11.5 million to DRD and $6 million was met from revenue generated from the workers camp.

Under the Ord native title agreement, a $12.5 million payment to the Miriuwung Gajerrong people was negotiated in 2009. Royalties for Regions funds through the OEKD Plan overed $10 million; the other $2.5 million was sourced from the Office of Native Title.

The 250-person workers camp has been unoccupied since construction completed in 2013

A workers camp for 250 people was built in Kununurra to provide accommodation during construction. At a build and operate cost of $24 million, it was intended to mitigate pressures on local accommodation during construction. While there were discussions at the time about potential uses once construction ceased, it has been vacant since construction finished in 2013. However, DRD has informed us that it has agreed in principle to lease the camp for 5 years to accommodate workers on a new major project in the region.

The irrigation expansion project took 3 years longer than planned

DRD expected the irrigation expansion project to start in 2010 and finish by the end of 2011. While work started on time, the new irrigation was not fully operational until December 2014. This late finish had knock-on effects to the rest of the development of Goomig including affecting the ability of the developer to plant crops in 2014.

The Commonwealth-funded building program was on budget, but late

The 21 projects coordinated by DSD were completed within budget, and ranged from $600,000 for the refurbishment of 2 sobering up centres to $48.9 million for new classrooms and a public library in Kununurra. Planned completion of all 21 projects was by June 2010. Actual completion was between February 2011 and May 2013. The local government projects were also completed by 2013.

The flexibility to move funding between projects and vary the scope of individual projects helped keep them on budget, as did comprehensive individual project planning. However, this planning did delay completion of the projects.

Lack of detailed planning and underestimation of the work for irrigation expansion led to delays and budget overruns

The original time and cost to deliver the irrigation expansion was unrealistic. Although the irrigation expansion project had to deal with an unusually long wet season in 2010-11 and the normal difficulties of working in the Kimberley, these were not the main cause for delay or budget increase. The main factor was an unrealistic initial estimate that significantly underestimated the work needed to expand irrigation and develop the land. The desire to start the project quickly, in keeping with the National Partnership Agreement with the Commonwealth, exacerbated this weakness.

There were no detailed costings to support the decision by the State to fund the project

We expected to find comprehensive supporting evidence for the project. Although there was a good case for investment in the East Kimberley to address socio-economic need, the information supporting the project was insufficient for a project of this scale. There was no specific business case or detailed costings undertaken for the entire project prior to commencement of the project in 2009. There were costings for the first construction phase extending the main irrigation channel.

DRD did not prepare a comprehensive costing to support its request for $91 million in additional funding in 2011. The funding request explained that construction costs were going to be much higher than originally anticipated, but did not itemise where or what costs had increased. A revised budget was also not prepared.

Less land is being farmed than originally expected

The Goomig irrigation expansion plan was to provide just over 8,000ha subdivided into up to 25 lots, sold and ready for farming by 2012. Efforts starting in late 2011 to sell the land in multiple small freehold titles did not succeed when not enough proponents met the State's criteria. The State then moved towards seeking a single developer. Kimberley Agricultural Investment Pty Ltd (KAI) was selected in November 2012. At June 2016, KAI had 1,600ha under crop, and expects to have 4,000ha under crop by October 2016.

Although the outcome of a single developer was very different from the original intention, the process was clear, transparent and well managed. When the initial release for freehold sale did not succeed, LandCorp took legal advice and gained approval to commence a new tender process for a single developer.

The Development Lease is not yet finalised which has delayed farming and economic benefits

DRD has not finalised the Development Lease with the developer for Goomig, 3 years after it was originally expected. This has delayed farming on Goomig, the realisation of broader economic benefits and increased possible risk to the State. These include bearing responsibility for environmental and infrastructure damage, and potential exposure if the developer stopped farming and the State had to find new occupants for the land.

Negotiating a single large-scale development raises very different challenges from a series of smaller freehold sales. A key problem has been has been finalising guarantee arrangements with KAI's overseas parent companies, caused by an unclear definition in the Development Agreement. This led to disagreement between parties. Until the guarantee is finalised, the State cannot grant formal leases, which limits the incentive to increase activity.

In lieu of a finalised Development Lease, since June 2013 a series of early access agreements have granted KAI access to prepare the land and start farming.

Governance arrangements were not always effective, and were not adjusted for changing circumstances and risk

A large-scale economic development program requires strong and consistent governance structures, clear reporting lines, and well-informed decision-making. While a detailed if complicated governance structure surrounded the expansion program from its beginning, it has not delivered the oversight we expected. For example, the Directors General Steering Committee did not formally approve key decisions, including changes to irrigation designs. Nor did it receive regular financial reporting, or approve revised budgets.

Although important negotiations were still under way, the Steering Committee did not meet between October 2015 and July 2016. In that time, important aspects of the project have progressed without input from the Steering Committee. These included the option to convert Knox to freehold, the amount of the developer's parent company guarantee and appointing LandCorp to negotiate subsidiary agreements to the Goomig Development Lease.

The original structure included 5 working groups that reported to 2 project groups that reported to the Steering Committee which in turn reported to a Ministerial Council. The roles and responsibilities of each of these groups was unclear. There was also considerable cross-over of membership between layers.

Socio-economic outcomes have not yet been realised, have not been measured, and there are no plans to do so

Economic activity, employment and agricultural return were the main reasons for Government support for the OEKD Plan. However, neither DRD nor DSD currently have measures to monitor and report on these outcomes. In the absence of these measures, DRD and DSD cannot show the impact of the expansion project.

There were good employment outcomes during the construction phase, which DRD measured at the time. Two hundred Aboriginal people worked on the irrigation project, providing 21% of all labour, with similar figures for the Commonwealth program. This slightly exceeded expectations. More than 100 Aboriginal people got formal qualifications and training during this time. KAI has also employed people during development and farming of Goomig but this has been limited by the slower than anticipated progress.

Government is committed to further proponent-led development, but has not finalised all arrangements

The State Government has made clear that it does not intend to fund further major infrastructure to support future development in the Ord. Instead, it wants developers to manage their own infrastructure needs. While this is a clear policy, there are no clear arrangements to facilitate this shift. We note that the Steering Committee informed the Ministerial Council in May 2013 that more roads, irrigation channels, and raising the level of Lake Argyle might be needed to service the expansion of agriculture on the Ord.

A key part of this new approach is to transfer land tenure from lease to freehold once developers meet certain conditions. A new pathway has been outlined, but the process to apply it has not been finalised. Another important factor will be the requirement for developers to negotiate with traditional owners on native title. This will involve at least a coordinating function for government, but it is not clear which agency will be responsible.

Recommendations

The Department of Regional Development should coordinate by December 2016:

1. finalisation and execution of the Development Lease for Goomig
2. development of formal progress reporting requirements to ensure the Steering Committee is fully appraised of project status, including appropriate project closure processes following the completion of the Goomig development lease
3. a review of the State's objectives and role for the future development of the Ord, and make recommendations to Government including future governance arrangements
4. establishment of key indicators and measures of success for the OEKD Plan and any future Government investment in development of the Ord, including a formal review and reporting framework.

Agency responses

Department of Regional Development

The Department of Regional Development (DRD) welcomes this independent review of the implementation and outcomes of the Ord East Kimberley Development Plan, and provides the following response.

DRD's role has been as the State's lead agency for the Ord Irrigation Expansion Project (OIEP), which was initiated in December 2008 with the commitment of $220m from Royalties for Regions. Based on this commitment, the State secured $195m co-investment from the Commonwealth in social infrastructure, with the combined works to be delivered known as the Ord East Kimberley Development Package (OEKDP).

State Cabinet and the Ord Ministerial Council were the decision-maker for all significant strategic decisions for the OIEP, based on advice from relevant agencies and the OEKDP Steering Committee. This included the extension of delivery timeframes from two to four years, the commitment of an additional $91m in funding prior to Phase 2 construction works, and the approach to and selection of private developers.

The Development Agreement between the State and Kimberley Agricultural Investments Pty Ltd (KAI) was completed in 2013 and provides the overarching framework for the Goomig land. Delays in completing the Development Lease under the Development Agreement have occurred for various reasons, but this has not caused delays in farming. The Development Lease is expected to be completed by the end of 2016.

The OIEP has been successful in bringing all the planned agricultural land to market, including Goomig (7,300ha), Knox (6,000ha), Mantinea (4,000ha) and Ord West Bank (1,000ha). This includes land development opportunities for two significant commercial developers, and also for the MG Corporation. KAI has brought important new investment and development capability to the East Kimberley, including significant investments in tourism and further planned agricultural development.

With the current progress, it can be expected that the East Kimberley will benefit from ongoing farm development for 10-15 years, that the total area under irrigation will have expanded from 15,000ha in 2011 to at least 30,000ha by 2021, and that the creation of growing and sustained workforce both directly and indirectly linked to Ord agriculture will grow accordingly.

The OEKDP investments have delivered social and economic benefits for both Aboriginal people and the broader community of the East Kimberley. Over 200 Aboriginal people were directly employed and trained as part of the OIEP. KAI's ongoing farm workforce has been stable around 50 staff, with 20-35% of these Aboriginal people. The East Kimberley community continues to benefit from the range of complementary investments made through the OEKDP, including better housing, health, schools and training services.

The broad-scale change in the socio-economic outcomes for Aboriginal people in the East Kimberley are complex and inter-generational. Ongoing agricultural development in the region contributes to this change, and is integral to planning for the future of the East Kimberley.

As the State completes the commitments and objectives of the OEKDP it is timely for it to review its objectives, role, and governance arrangements for ongoing development of the Ord. The Department will engage with relevant State agencies to do this by the end of 2016 as per the recommendations in this report.

Department of State Development

The Department of State Development accepts the findings of the performance audit and the recommendations in the report.

The Department seeks to clarify the finding that the East Kimberley Development Package projects were delivered late. The Department notes that the original completion dates for a number of projects were varied by agreement with the Commonwealth, due to the time required to complete detailed project planning and also the seasonal limitations on construction in the region, which had not originally been considered. The Department notes that all projects were delivered within the originally agreed funding period.

The Department welcomes the conclusion in the report that the design and planning work undertaken before construction commenced on each East Kimberley Development Package project helped the projects keep to budget, and assisted in effective project monitoring and management by the Department.

The Department notes the finding that socio-economic outcomes of the Plan have not yet been realised, and have not been effectively tracked. The Department commented in the final Evaluation Report for the East Kimberley Development Package project, completed in 2014, that longer timeframes for the delivery of the package and spacing of the individual projects could have increased local content and improved indigenous employment/training outcomes. The Department agrees with the conclusion in the report that the community impact of the East Kimberley Development Package projects has not been properly measured. The East Kimberley Development Package Evaluation Report stated that the medium to long-term outcomes from the provision of new infrastructure and associated improvement in service delivery and community amenity would not be realised until programs were fully established and evaluation of those programs could be undertaken.

The conclusion in the report that community response to the social infrastructure projects has generally been positive is welcome.

The Department will continue to work with the Department of Regional Development and relevant stakeholders on future planning and management of the Ord Irrigation Expansion Project.

LandCorp

LandCorp values the opportunity for the external review of its role in the Ord-East Kimberley Expansion Project (OEKEP) and provides the following clarification points.

Substantial experience of local conditions was gained through Phase 1 construction. Based on these learnings, Phase 2 construction was delivered on time and within the budget provided to Cabinet. The construction program was purposefully spread over a minimum of two dry seasons by the Ord Ministerial Council to provide additional indigenous employment outcomes. This approach was approved by Cabinet in 2011.

For clarity, LandCorp's project management fee for the construction contracts and managing the procurement process to secure an international development company was $4.6 million. A further $4.5 million was for the outsourcing of construction contract management, project superintendent and project surveillance officers.

The OEKEP has been successful for Kununurra with the town benefiting from the addition of several new infrastructure projects. Since 2008, there has been a significant lift in housing and industrial supply, and a corresponding increase in the construction of private dwellings. In addition, the arrival of KAI to Kununurra has brought a welcomed industry scale investment, achieved widespread local stakeholder support, and resulted in a huge leap in confidence for the Ord Valley farming community.

Audit focus and scope

We assessed whether the implementation of the Ord-East Kimberley Development Plan is resulting in efficient expansion of irrigated land and intended socio-economic benefits to the community. We focused on 3 lines of inquiry:

1. Have the infrastructure projects in the Ord-East Kimberley Development Plan been delivered efficiently?
2. Have the economic and social benefits from the Ord-East Kimberley Development Plan been realised?
3. Is WA's involvement in further stages of the Ord Irrigation Expansion strategically planned?

We employed qualitative and quantitative methods, including interviewing staff and examining policies, strategies, plans and processes at:

- Department of Regional Development
- Western Australian Land Authority (LandCorp)
- Department of State Development.

The audit focused on the period between December 2008 and June 2016. We also spoke to representatives from:

- Shire of Wyndham-East Kimberley
- Yawoorroong Miriuwung Gajerrong Yirrgeb Noong Dawang Aboriginal Corporation (MG Corporation)
- Kununurra Chamber of Commerce and Industry
- Ord Irrigation Cooperative
- Wunan
- Kimberley Training Institute (now North Regional TAFE)
- East Kimberley Job Pathways
- Kimberley Development Commission
- Kimberley Agricultural Investment Pty Ltd
- Department of Agriculture and Food WA
- Water Corporation
- Department of Water
- TFS Corporation Ltd
- Department of Housing
- WA Country Health Service.

This was a broad scope performance audit, conducted under section 18 of the *Auditor General Act 2006* and in accordance with Australian Auditing and Assurance Standards. Performance audits primarily focus on the effective management and operation of agency programs and activities. The approximate cost of tabling this report is $410,558.

Audit findings

The 2 year, $415 million project has taken 7 years and cost $529 million

The State and Commonwealth governments both funded parts of the Ord-East Kimberley Development Plan

The aim of the Ord-East Kimberley Development (OEKD) Plan was to develop a sustainable and stronger economy and improve the socio-economic outcomes for Aboriginal people in the East Kimberley. It would achieve this through 2 key projects:

- expansion of the Ord irrigation system, funded by the State at a cost of $220 million to be completed in 2011:
    - water and road infrastructure to service 8,000ha of land at Goomig
    - subdivision and sale of the 8,000ha of land
    - scoping work for up to 6,680ha of land at Packsaddle, Ord West Bank and Mantinea.
- a $195 million Commonwealth-funded building program for completion by June 2010, including upgrades to the Kununurra hospital, transitional housing, new educational buildings and sports facility upgrades.

Cabinet approved Royalties for Regions (RfR) funding in 2008 for the expansion of the Ord irrigation system. The Commonwealth committed $195 million through a National Partnership Agreement in July 2009. Figure 2 shows key events since 2008.

The Ord irrigation expansion project has broadly delivered most of the key outputs of the OEKD Plan. This includes:

- 40km of arterial irrigation channel connecting the existing irrigation system to Goomig
- 86km of supporting supply and drainage channels and flood protection levees
- 41km of roads
- a 250-person workers camp
- development of farming on Goomig
- plans to transfer freehold over 675ha on Goomig to the MG Corporation
- selection of preferred developers for Knox, Packsaddle, Ord West Bank and Mantinea
- preliminary planning for further development and release of land at Bonaparte Plains, Victoria Highway and Carlton Hill, and discussions with the Northern Territory (NT) government on Keep River Plain.

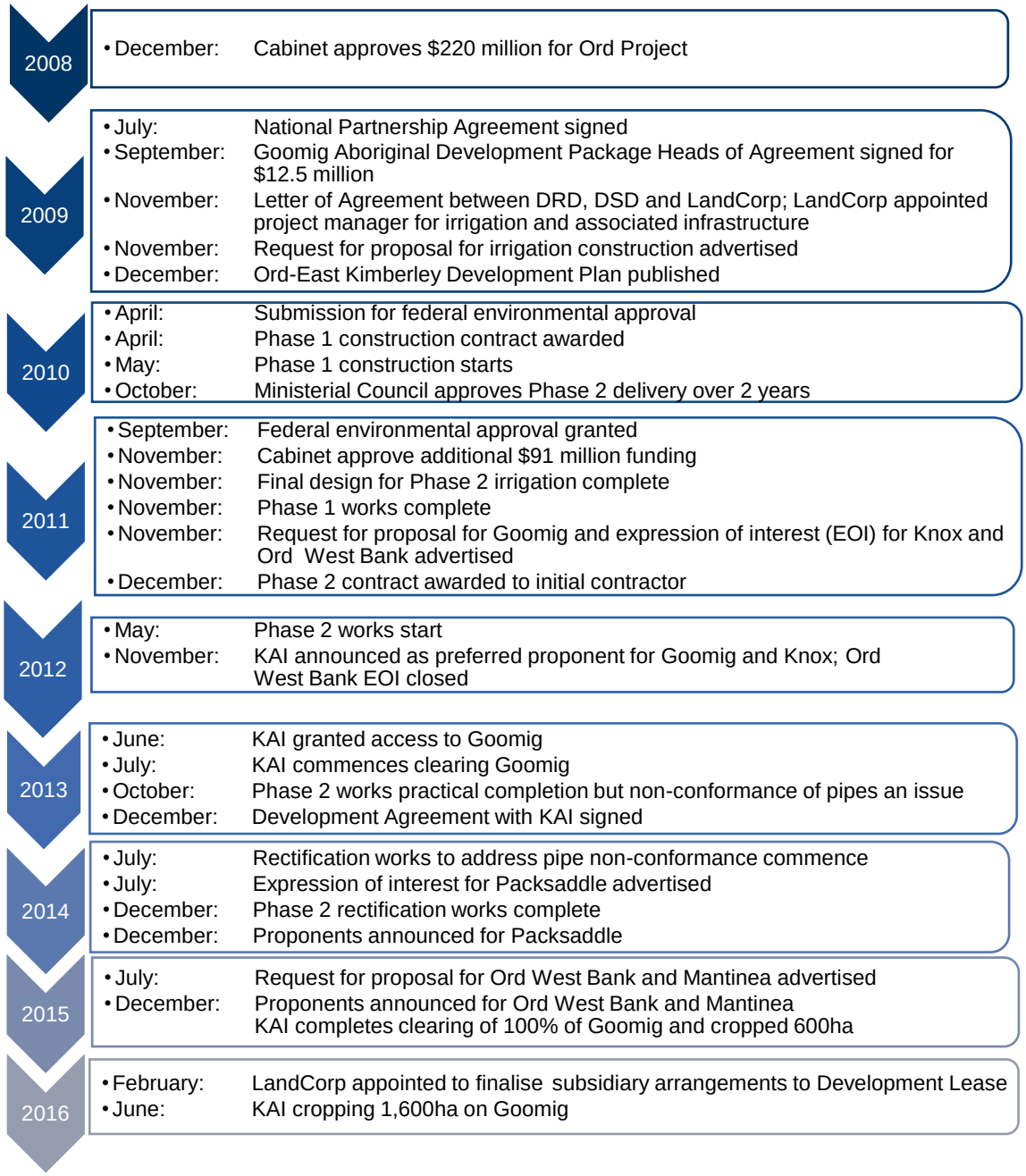


Figure 2: Ord development timeline

Costs to the State have increased by $114 million

When Government announced the OEKD Plan in December 2009, the estimated cost to the State was $220 million. These funds were to come from RfR. Current estimates are that it will cost $334 million (including ongoing environmental efforts and unfinished works), an increase of $114 million or 52% (Figure 3).

	2010 budget ($m)	Expenditure at June 2016 ($m)	Variation ($m)
Project management and administration	7.4	29.9	22.5
Legal	–	3.7	3.7
Environmental	0.2	8.1	7.9
Engineering and planning	16.7	20.6	3.9
Construction	175.7	234.9	59.2
Aboriginal Development Package	10.0	12.5	2.5
Workers camp	10.0	24.1	14.1
Sub total	**220.0**	**333.8**	**113.8**
Commonwealth building program	195.0	195.0	0.0
Grand Total	**415.0**	**528.8**	**113.8**

Figure 3: Budget to actual expenditure at June 2016

Costs to the State have gone up in all areas of the project. The largest rises were in construction, ($59.2 million), project management and administration ($22.5 million) and the cost to build and run a workers camp for the project ($14.1 million). The Aboriginal Development Package with the Miriuwung Gajerrong people cost $12.5 million, not the $10 million in the announced budget. The extra $2.5 million was sourced from the Office of Native Title rather than from RfR. This package was required under the 2005 Ord Final Agreement, and the figure was agreed in 2009.

A 250-person workers camp budgeted to cost $10 million was key to the project, and meant to prevent the types of local property market problems seen with developments in the Pilbara. The first stage, for 150 people, was finished in 2010 for $12 million. A second stage finished in 2012, and cost a further $12 million.

Although the project Steering Committee discussed numerous options about ways to use the camp in the future, it has been empty since main construction finished in 2013. However, DRD has informed us that it recently agreed in principle to let the camp to another developer for 5 years.

The 2010 estimate for irrigation construction was $176 million. The final cost was $235 million, an increase of 34%. The main contractor was paid $198.7 million to build roads, irrigation channels and drains. A further $23.6 million went to other contractors. Finally, $12.6 million went to an Indigenous Community Development Package for training and support for Aboriginal workers, separate from the package provided under the Ord Final Agreement.

The expansion was in 2 phases. Phase 1 extended the main irrigation channel by 19 km and the adjoining road to Goomig by 13 km. During this phase, 3 contractors drew up detailed plans to irrigate Goomig. This is standard in major projects, as a way to limit the risk of unforeseen cost increases. Phase 2 delivered 21km of irrigation channels, 26km of roads and 70km of drainage.

To meet the higher than expected cost, DRD has received extra funding from various sources. Cabinet approved a further $91 million from RfR in November 2011. DSD transferred $11.5 million to DRD in 2011. A further $2.5 million came from the Office of Native Title for the Aboriginal Development Package. The workers camp also brought in $6 million of revenue, paid by the contractor to house staff.

At June 2016, DRD held about $11 million that was yet to be spent. While most of this is committed, some depends on future decisions.

The irrigation expansion project took 3 years longer than planned

DRD expected construction on the irrigation expansion to start in 2010 and complete during the dry season of 2011 (Figure 4). While work started on time, it was not until October 2013 that the work was finished and December 2014 before defects were rectified and the system was operational. This late finish had knock-on effects including delaying the developer's first crop until 2015.

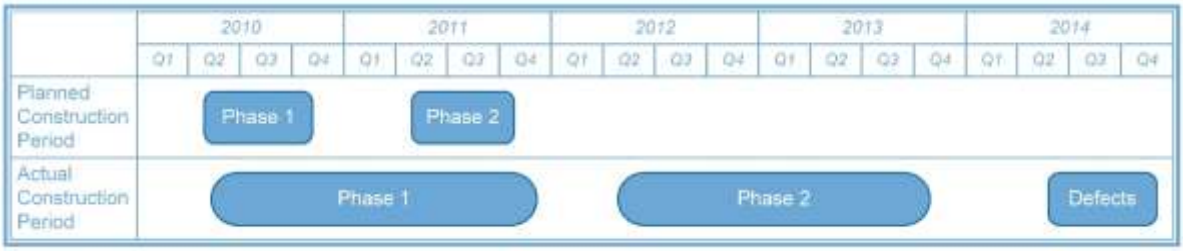


Figure 4: Actual irrigation expansion timeline compared to plan

The Phase 1 construction contract called for completion by November 2010. Work began as expected in May 2010 but did not finish until November 2011. It became clear very soon after the start of Phase 1 that the planned timelines would not be achieved. Slower than expected progress and site difficulties were behind most of this delay, although it also included another wet season.

In June 2010, the joint venture contractor informed the Directors General Steering Committee that Phase 2 would take 3 times the labour of Phase 1. In July 2010, the Steering Committee noted that it was likely that the contractor would not complete Phase 1 until July 2011. In October 2010 the committee recommended and the Ministerial Council approved that Phase 2 be delivered over 2 years.

Under the OEKD Plan, work on Phase 2 was to start in May 2011 and end by November 2011. However, as predicted, these dates slipped and LandCorp did not award the Phase 2 contract until December 2011, with operational completion expected by the end of 2013.

Construction began in May 2012 and reached practical completion in October 2013. The asset was declared fully operational in December 2014, after defects were rectified.

The Commonwealth-funded building program was delivered on budget, but late

The 2009 National Partnership Agreement and OEKD Plan included a program of 27 building projects in the East Kimberley, costing $195 million (Appendix 1). This stimulus package aimed to meet shortfalls in health, aged care, housing, employment, education and training, family and child services infrastructure in the region. DSD had responsibility for coordinating delivery of 21 projects costing $177.9 million. The Shire of Wyndham-East Kimberley was responsible for the other 6 projects.

All 21 projects coordinated by DSD were completed within budget. They ranged in cost from $600,000, to refurbish 2 sobering up centres, to $48.9 million, to build a new public library and new classrooms for the Kununurra primary and high schools. Flexibility to move funding within the program and vary the scope of individual projects helped keep the program on budget.

While delivered on budget, the building program took longer than expected. The planned completion date for the DSD coordinated projects was by June 2010. However, the actual completion time was between February 2011 and May 2013.

The delays were mainly due to each project requiring detailed design and planning work before construction could begin. While it took time, this planning helped the projects keep to budget. Each project had to have a specific implementation plan approved by the Commonwealth. DSD monitored progress against these plans and any variations had to be agreed with the Commonwealth. Some individual plans took up to 12 months to finalise. In addition, a small number of projects needed Aboriginal heritage clearances, which also delayed construction. The projects managed by the Shire were completed by 2013.

Lack of detailed planning and underestimation of the work led to delays and budget overruns

The early estimate of the time and cost to expand the irrigation system was unrealistic. While the project had to deal with a very long wet season in 2010-11 and the normal difficulties of working in the Kimberley, these were not the main causes of delay or budget increase.

The main factor behind the unrealistic estimate was the lack of detailed costing or planning. The desire to start the project quickly, in keeping with the National Partnership Agreement with the Commonwealth, exacerbated this weakness.

Decisions and estimates for the irrigation expansion relied on several proposals done since the mid-1990s

Several times since the 1990s, government has investigated and assessed the potential to increase the amount of land for irrigated farming in the Ord region. Each time it included and excluded different lands and services. While the OEKD Plan built on these, it also differed from them and it did not have a detailed or consolidated business case or project plan.

The prior assessments of the potential of the Ord region included:

- a 1996-97 project that developed important technical details for extending the main irrigation channel to Goomig
- a 1998-2001 review of options for government by a private investment company
- a 2004 business case to develop 30,000ha in WA and NT, commissioned by the then Department of Industry and Resources
- 2007 Treasury analysis that expansion was not viable on economic grounds only, but could be viable if it achieved broader social and economic benefits
- a 2008 review of the 2004 business case that supported government investment based on the likely social benefits. It estimated the cost of developing Goomig at $180 million. We note that Parliament concluded the project could not be justified on purely economic grounds but may be justified on the basis of social outcomes.

Later in 2008, Cabinet approved $220 million for a plan that included expanded irrigation to Goomig, Mantinea and Ord West Bank. In December 2008, Government sought Commonwealth funding for this plan plus a set of regional building projects, which it costed at $391 million in total. The State and the Commonwealth then finalised the National Partnership Agreement in July 2009.

Only Phase 1 had technical specifications when construction began in 2010, based on those developed in 1996-97. These were sufficient for a point-to-point channel, which had not changed purpose in 20 years. Planning included an extended channel to supply water for up to 30,000ha of farmland in Goomig, Knox and across the border into the NT.

Phase 2 was a more technically challenging exercise, with much greater inherent risk and variability, and required more detailed planning. It had to deliver roads, irrigation and drainage

for up to 21 farm lots of varying sizes (down from the announced 25), elevation and soil-type across 8,000ha at Goomig (down from 9,000ha in an indicative subdivision plan in the OEKD Plan).

No detailed planning for Phase 2 occurred prior to the project commencing. For example, there was no detail of the quantities or costs for soil to be removed, lining to be laid, or pump and flow gates to be installed. Similarly, the road-building costs and quantities were not established. These are key factors for irrigation works, and depend on a construction-based rather than agricultural soil analysis, which was also absent.

There were no detailed costings to support the decision to fund the project

A 2010 project budget set Phase 1 at $61.5 million and Phase 2 at $114 million. We expected to find comprehensive supporting evidence for these estimates. Instead, we found little to support them.

Phase 2 had to deliver more than twice the infrastructure of Phase 1 across 21 separate lots. This was always going to be more complicated than the main channel extension and would have been clear if there had been adequate planning and analysis. We note the request for tender included an indicative price target for Phase 2 of 1½ times the Phase 1 price.

The lack of planning meant that Government lacked a good understanding of the work required and a capacity to provide sufficiently explicit project specifications. This failure ultimately led to the increase in the cost of the project.

Further, when the project began in 2010, the budget significantly underestimated or missed out some of the costs. For instance, it allocated only $200,000 for environmental activity. This was clearly unrealistic given that the entire project involved relatively pristine land in the East Kimberley. By June 2016, environmental costs reached $8.1 million. We note that it took the State 18 months to gain Commonwealth environment approval for the irrigation expansion, rather than the planned 6 months, although this did not materially affect environmental costs.

We were also surprised to see no budget for legal costs in developing Goomig, especially after the approach shifted to a single (in this case international) developer. Legal costs to date are $3.7 million.

The request for $91 million of increased funding in 2011 also lacked a clear budget. The funding request explained that construction costs were going to be $40 million higher than originally anticipated, and that increased water delivery would cost $30 million more, but we were unable to sight any supporting analysis that itemised where or what costs had increased.

It took longer than expected to engage a developer for Goomig, and less land than planned is being cropped

The original intention under the OEKD Plan was that just over 8,000ha of land at Goomig would be subdivided into up to 25 lots, sold and ready for farming by 2012. Instead, KAI was granted access to most of the land in June 2013 as a single developer, and a long-term lease is being finalised.

Currently, 7,018ha is available for farming. KAI has access to 6,343ha, and MG Corporation will have 675ha in freehold. At June 2016, KAI had 1,600ha under crop. The Development Agreement envisaged that by October 2016 all the land available to KAI would be under crop.

Less land is being farmed than originally expected

Although in 2009 the land release was expected to be about 8,000ha, the actual amount available to farm is 7,018ha. There were two main reasons for the reduction in available land. First, 787ha has been set aside to manage ground water issues. Second, 323ha is unavailable due to a mining tenement.

The developer of Goomig has not met the cropping milestones of the initial Development Agreement of December 2013. The agreement was for the cropping of 350ha in 2014, 2450ha in 2015 and all land cropped in 2016. In fact, they cropped 600ha in 2015 and 1,600ha in 2016.

One reason for this is the longer than expected time to complete on-farm infrastructure (internal irrigation, drains, and 'tailwater' dams), in part due to later completion of the main irrigation. The overarching factor is the delay in finalising lease arrangements.

The development milestones were varied in September 2014 to remove the requirement to crop that year. This allowed LandCorp to oversee rectification works on the irrigation system. DRD has not negotiated new milestones for the cropping of Goomig. We expect future arrangements will include revised milestones and rectify this problem.

The change from multiple freeholders to a single leasehold developer was reasonable

Although the outcome of having a single large developer was different from the initial plan for multiple lots sold to smaller developers, both the change of approach and the process to identify the preferred developer were clear, transparent and well managed. The Government's decision-making process incorporated appropriate advice about the market and of the risk to the State.

LandCorp and DRD went to market in 2011 with a Request For Proposals (RFP). The RFP required applicants to identify which lots they sought, and show:

- financial capability
- farming expertise
- farm design and development
- the price they were prepared to pay.

The process included an advisory panel with senior representatives from DRD, LandCorp, the Department of Agriculture, the Kimberley Development Commission and the Ord River District Cooperative. It also engaged a probity auditor.

The RFP planning considered other potential tenure options. Market feedback showed that large commercial investors were interested in the release, so after discussion at Steering Committee and Ministerial approval, LandCorp added a new option to the process. If any single developer wanted to acquire 50% or more of the land, tenure would shift from freehold to a 50-year lease.

In April 2012, the advisory panel decided that none of the 6 applicants met the requirements. Most interest came from commercial developers, with limited interest from small farmers. After taking legal advice that it was permissible to do so, LandCorp ended the RFP. This meant the State would forego potential land sales revenue, the 2010 estimate of which was $20 million.

LandCorp began a new process with 3 proponents from the first RFP in May 2012. It sought one proponent to take up the whole Goomig parcel on lease and commit to developing Knox.

In August 2012, the advisory panel nominated a preferred applicant, with another as a fall-back. Both proponents planned large-scale developments across multiple parcels, with industrial processing plants to follow – a sugar mill for the current developer, and a cotton mill for the fall-back. In November 2012, the successful proponent was announced.

In a concurrent decision process, expressions of interest went out for Ord West Bank. After the advisory panel assessed applicants and recommended a single proponent, government halted the process.

After considering the implications of allowing single developer access to the parcels, DRD readvertised Ord West Bank in July 2015 along with Mantinea. In December 2015, KAI was named the preferred proponent for Mantinea, and another company with existing Ord irrigation property was successful for Ord West Bank. This gives them the right to negotiate leases which can convert to freehold once development is complete.

The Development Lease for Goomig is not yet finalised which has delayed farming and economic benefits

DRD has not finalised the Development Lease for Goomig, nearly 4 years after choosing the developer. This has delayed farming on Goomig, affecting the realisation of broader economic benefits and increasing risk to the State and the developer.

Negotiating a single large-scale development raises very different challenges from a group of smaller freehold sales. These were not considered in the original estimates to complete the agreement process. When the developer was announced in November 2012, DRD expected it would finalise the Development Lease by May 2013.

A key issue has been finalising a parent company guarantee. The guarantee provision in the Development Agreement was poorly defined and did not set parameters for time or value. This led to different interpretations by the State, KAI and its Chinese parent companies. The State sought an unlimited guarantee but this was rejected by the Chinese State Administration of Foreign Exchange (SAFE) which will not approve unlimited guarantees.

After considering the work and capital invested by the developer, the State and KAI negotiated a nine-year $50 million guarantee. At June 2016, KAI had not confirmed that SAFE had approved the guarantee and it was enforceable, and so the Development Lease had not been finalised.

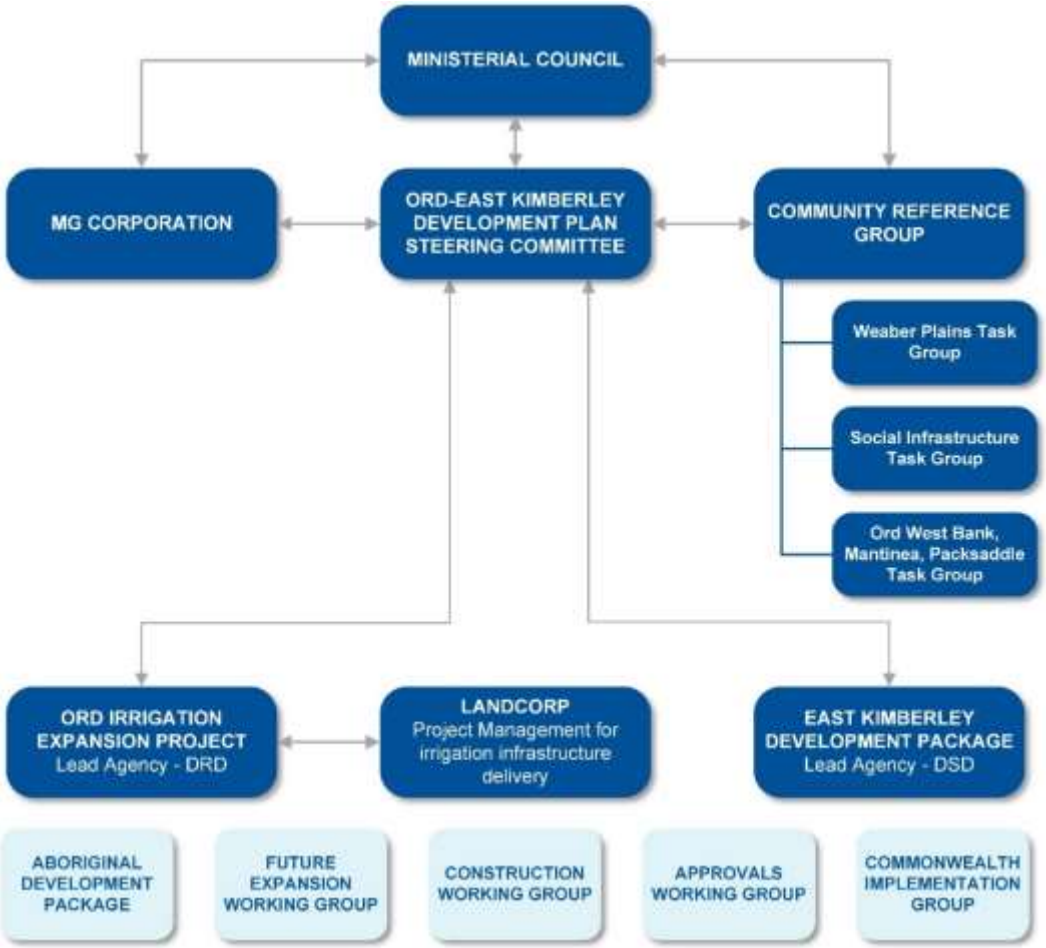
Without a finalised parent company guarantee, the State cannot grant a development lease. This is the conditional precursor to a full farming lease, which will run in the first instance for 50 years. The absence of secure tenure is not an incentive for the developer to commit further investment.

The absence of a finalised Development Lease has led to several workarounds. Since June 2013, the State has granted the developer a series of early access agreements to prepare the land and commence farming. Without a lease, the developer does not a have an ongoing water licence but has had to rely on an agreement with the Ord Irrigation Cooperative.

Governance arrangements were not always effective, and did not change to match changing circumstances and risk

A large-scale economic development program needs strong and consistent governance structure, clear reporting, and well-informed decision-making. Although the project has a defined governance structure, it has not delivered the oversight we expected.

The project governance, as laid out in the OEKD Plan, is complex. Five working groups report to 2 project groups – an Irrigation expansion group and a Commonwealth projects group. These 2 groups in turn report to the Directors General Steering Committee. The Steering Committee then reports to a Ministerial Council, made up of the Premier, Minister for Regional Development, Minister for Water and Minister for Agriculture and Food (Figure 5).



Source: DRD

Figure 5: OEKD Plan governance structure

There are several issues with how this governance structure worked, including cross-membership between committees, unclear terms of reference and the regularity of meetings. Ministerial officers were members of the Steering Committee, as were the managers for the irrigation and Commonwealth projects, which blurred the responsibility and authority for each level.

The Steering Committee includes:

- directors general from the Departments of Regional Development, Lands, Agriculture and Food, State Development and Water
- chief executive officers from LandCorp and the Water Corporation
- representatives from various ministers offices and other agencies such the Office of Native Title
- members of the two project committees.

During the main irrigation construction, the Steering Committee did not receive detailed or consistent updates on financial or contract performance. Nor did it require detailed budgets, even after the approval of the additional $91 million. The Steering Committee appears to have functioned more as an information-sharing body than decision-maker. There was poor definition of responsibilities for this group, and poor records of decisions. Although there are comprehensive minutes of meetings, it is not clear when or who approved some significant changes such as changing the farm lot layout and key infrastructure design changes.

Since October 2015, the project has progressed in a number of important ways without input from the Steering Committee. We expected that the Steering Committee would make recommendations to Government on these matters. No reasons were evident for the lack of Steering Committee input. The actions included:

- providing KAI the option to take up Knox as freehold rather than lease
- the guarantee amount from KAI's parent companies as a condition of finalising the Development Agreement
- appointing LandCorp to finalise subsidiary elements to the Goomig Development Lease
- approving a new Goomig early access agreement for KAI.

The Steering Committee met monthly during the peak construction period from March 2010 to mid-2013. However, meetings became more intermittent after this. This is reasonable, as the nature of the project changed. While the committee resolved in July 2014 to meet quarterly, it did not meet from October 2015 to July 2016.

We expected that DRD as the project coordinator of the $334 million irrigation expansion project would have clear and robust financial management, with routine and detailed reporting. This was not the case.

DRD did not require detailed or regular reporting from LandCorp, either on progress or costs. Nor did it have clear internal reporting on the $47 million it managed over the project. This included approximately $11 million held for future costs, $11 million for the workers camp, and various project, legal, environmental and office management costs. It could also not provide a clear breakdown of project expenditure to budget, which could be reported routinely, and in a timely way to the Steering Committee. Further, financial commitments were managed manually in spreadsheets, which is both time consuming and increases the risk of error.

Socio-economic outcomes have not yet been realised, and have not been effectively tracked

DRD and DSD have not measured whether the $529 million invested in the OEKD Plan has improved socio-economic indicators in the region. These include the main objective of the Plan to develop a sustainable and stronger economy and improve the socio-economic outcomes for Aboriginal people in the East Kimberley. We recognise that deep and sustained improvements may not be evident for many years.

The justification for the OEKD Plan relied heavily on addressing socio-economic disadvantage. Therefore, monitoring relevant indicators was essential to properly understanding achievement of outcomes. A comprehensive baseline of social indicators was completed in 2008, but there is no plan to reassess these indicators to identify any improvement.

However, DRD did collect employment information from 2010 to 2013. While local and Aboriginal employment increased during the construction of both the irrigation infrastructure and Commonwealth funded buildings, this was not sustained.

Employment outcomes during irrigation construction included 204 people employed with a peak Aboriginal workforce of 97 in September 2012. Overall, Aboriginal people were employed for 21.4% of construction days on the project, against a target of 20%, with an average attendance of 86% compared to the target of 80%. There were similar rates on the Commonwealth program.

The delay in developing Goomig for farming has limited the creation of agricultural jobs. During 2015, the developer employed 87 people plus about 25 building contractors. In 2016, employment numbers dropped to 61 people plus 10 to 15 seasonal workers.

Community response to the Commonwealth-funded social infrastructure projects has generally been positive, although there is little reporting of outcomes. For example, there are occupants in all 40 new transitional dwellings in Kununurra, with a waitlist of around 30 people. Similarly, the number of students enrolled at North Regional TAFE's Kununurra campus increased following the building program, from 865 students in 2013 to 1,064 students in 2015. However, the community impact of these projects has not been measured.

With Goomig now under crop, other areas identified in the OEKD Plan are moving towards development. If successful, they will increase economic activity and employment, but the extent and impact of this is uncertain.

Government is committed to more proponent-led development in the Ord, but has not finalised how this will be implemented

Government has made clear that it does not intend to fund further major infrastructure to support future development in the Ord. Rather, it sees its role as releasing land and negotiating development agreements, leaving developers to manage their own infrastructure needs, environmental approvals and native title compensation.

To support this approach, government has mapped out processes to deal with changes to land tenure, but the viability of proponent-led infrastructure development has not been fully tested. In May 2013, the Steering Committee reported to Ministerial Council that more infrastructure was likely to be needed for the expansion of irrigated agriculture in the Ord region to take full effect. This included major road bridge upgrades, new roads, and potentially raising the Lake Argyle spillway to increase the amount of water available (depending on crop choices, and whether or not the NT land was connected to the system).

A key part of the new approach includes transferring land tenure from lease to freehold once developers meet certain conditions. DRD and 3 other agencies have developed a new land tenure pathway for this process, although this audit did not assess its effectiveness or uptake.

Under the new approach, developers will have to:

- negotiate indigenous land use agreements with traditional owners. The State will supply guidelines, and be a party to any agreement. For example, KAI has negotiated an Aboriginal Development Package for Knox
- cover all costs, including surveying, native title compensation, negotiations, and meetings
- manage all approvals. For example, KAI has obtained Commonwealth environmental approvals for Knox.

In line with these new changes, the conversion of Knox to freehold, should KAI take the option, will be managed under this process. Further, DRD is leading negotiations with developers for Mantinea and Ord West Bank, including monitoring progress in negotiations with traditional owners.

We note that in February 2016, DRD brought LandCorp in as a single point of contact for negotiations subsidiary to the Development Lease for Goomig. However, it has not been decided if this will be a standard process for all future developments. An absence of well-established responsibility and authority increases the risks of delay and miscommunication. We note that an agency exercise in lessons learned from the project noted these risks.

Appendix 1: Commonwealth building program

Project	Lead Agency	Project Manager	Planned Funding (million)	Actual Funding (million)
Wyndham Residential Rehabilitation Facility	Department of State Development (DSD)	WA Country Health Service (WACHS)	$3.2	$3.2
Refurbishment of Sobering Up Centres	DSD	WACHS	$0.6	$0.6
Health Service Provider Housing	DSD	WACHS	$5.0	$6.5
Kununurra Hospital Expansion	DSD	WACHS	$20.0	$20.3
Short Stay Patient Accommodation (Kununurra)	DSD	WACHS	$4.0	$5.1
Environmental Health Measures (Kalumburu, Warmun and Oombulgurri)	DSD	WACHS	$6.8	$3.9
Wyndham Health Facilities Refurbishment	DSD	WACHS	$3.4	$3.4
Remote Aged Care Services (Kalumburu and Warmun)	DSD	WACHS	$5.0	$4.6
Remote Clinics (Kalumburu and Warmun)	DSD	WACHS	$2.0	$6.4
Kununurra Primary School	DSD	Department of Education (DOE)	$25.0	$48.9
Kununurra High School	DSD	DOE	$15.0	
Kununurra School Community Library	DSD	DOE	$5.0	
East Kimberley Teacher Training Facility within Kununurra High School	DSD	DOE	$3.5	
North Regional TAFE (Wyndham and Kununurra)	DSD	Department of Training and Workforce Development	$10.0	$10.0
Wyndham Early Learning Activity Centre	DSD	DOE	$1.6	$1.7
Early Childhood Building for Jundranung Community Project cancelled and replaced with Out-of-School-Hours Care	DSD	DOE	$1.0	$0.1
Out-of-School-Hours Care Facility	DSD	Catholic Education Office of WA		$0.6
Community Meeting Rooms in Dawul, Kalumburu and Kununurra	DSD	DOE	$2.3	$2.1

Project	Lead Agency	Project Manager	Planned Funding (million)	Actual Funding (million)
Wyndham Port Facility Upgrade	DSD	Department of Transport	$10.0	$10.0
Social Housing (Kununurra and Wyndham)	DSD	Department of Housing	$30.0	$46.0
Transitional Housing (Kununurra and Wyndham)	DSD	Department of Housing	$20.0	
MG Corporation– Gelganyem Trust Shared Office Facility	DSD	Gelganyem Trust	$4.5	$4.5
Community Sporting Facilities	Shire of Wyndham-East Kimberley (SWEK)	SWEK	$4.2	$2.2*
Kununurra Airport (Airport Upgrade and Patient Transfer Facility)	SWEK	SWEK	$5.4	$5.4*
Wyndham Picture Gardens	SWEK	SWEK	$0.3	$0.3*
Waringarri Aboriginal Arts Centre	SWEK	SWEK	$1.6	$1.6*
Wyndham Community Jetty (Anton's Landing)	SWEK	SWEK	$5.0	$7.0*
Warmun Early Learning Centre	SWEK	SWEK	$0.6	$0.6*
Total			**$195.0**	**$195.0**

Source: DSD

* local government outcomes not assessed in this audit.

Auditor General's Reports

Report Number	Reports	Date Tabled
19	Information and Communication Technology (ICT) in Education	17 August 2016
18	Opinions on Ministerial Notifications	11 August 2016
17	Financial and Performance Information in Annual Reports	21 July 2016
16	Grant Administration	7 July 2016
15	Management of Feedback from Public Trustee Represented Persons	30 June 2016
14	Management of Marine Parks and Reserves	30 June 2016
13	Maintaining the State Road Network – Follow-on Audit	29 June 2016
12	Regulation of Builders and Building Surveyors	22 June 2016
11	Information Systems Audit Report	22 June 2016
10	Opinions on Ministerial Notification	8 June 2016
9	Payment of Construction Subcontractors – Perth Children's Hospital	8 June 2016
8	Delivering Services Online	25 May 2016
7	Fitting and Maintaining Safety Devices in Public Housing – Follow-up	11 May 2016
6	Audit of Payroll and other Expenditure using Data Analytic Procedures	10 May 2016
5	Audit Results Report – Annual 2015 Financial Audits – Universities and state training providers – Other audits completed since 1 November 2015; and Opinion on Ministerial Notification	10 May 2016
4	Land Asset Sales Program	6 April 2016
3	Management of Government Concessions	16 March 2016
2	Consumable Stock Management in Hospitals	24 February 2016
1	Supplementary report Health Department's Procurement and Management of its Centralised Computing Services Contract	8 June 2016 17 February 2016

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