



PERFORMANCE AUDIT

28 FEBRUARY 2024

Design and administration of the WestInvest program

NEW SOUTH WALES AUDITOR-GENERAL'S REPORT



THE ROLE OF THE AUDITOR-GENERAL

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In accordance with section 38EC of the *Government Sector Audit Act 1983*, I present a report titled '**Design and administration of the WestInvest program**'.

A handwritten signature in black ink, appearing to read 'Margaret Crawford'.

Margaret Crawford PSM
Auditor-General for New South Wales
28 February 2024



RECONCILIATION COMMITMENT STATEMENT

The Audit Office of New South Wales pay our respect and recognise Aboriginal people as the traditional custodians of the land in NSW.

We recognise that Aboriginal people, as custodians, have a spiritual, social and cultural connection with their lands and waters, and have made and continue to make a rich, unique and lasting contribution to the State. We are committed to continue learning about Aboriginal and Torres Strait Islander peoples' history and culture.

We honour and thank the traditional owners of the land on which our office is located, the Gadigal people of the Eora nation, and the traditional owners of the lands on which our staff live and work. We pay our respects to their Elders past and present, and to the next generation of leaders.

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Section one

Design and administration
of the WestInvest program

Executive summary

WestInvest is a \$5 billion funding program that was announced in September 2021. The program was established with the stated aim of building 'new and improved facilities and local infrastructure to help communities hit hard by COVID-19'.

WestInvest was divided into three funding streams:

- \$3 billion NSW government projects round open to NSW government agencies
- \$1.6 billion community projects competitive round administered as a competitive grant program that was open to local councils, non-government organisations, Local Aboriginal Land Councils, and educational institutions in the 15 eligible LGAs
- \$400 million local government projects round administered as a non-competitive grant round only open to the 15 eligible councils, with each council receiving a pre-determined share of the \$400 million.

The WestInvest program was administered by NSW Treasury and the Premier's Department (previously the Department of Premier and Cabinet). Decisions about funding allocations were made by the former Treasurer in his role as the statutory decision-maker and announced by the former government in the lead up to the March 2023 NSW State election, but no funding was paid prior to the election.

Following the change of government, the funding decisions for the community projects competitive round and local government projects round were confirmed and negotiation of funding deeds commenced. The current government reviewed the decisions for the NSW government projects round and made changes to multiple decisions as part of the 2023–24 NSW Budget process. The current government has also changed the name of the program to the Western Sydney Infrastructure Grants Program.

The objective of the audit was to assess the integrity of the design and administration of the WestInvest program. This included assessing the processes used in the design and implementation of the program and award of funding.

The audit did not re-assess the merits of individual projects that were submitted for funding consideration and did not examine the implementation of projects that were allocated funding.

Conclusion

The design of the WestInvest funding program lacked integrity because it was not informed by robust research or analysis to justify the commitment of public money to a program of this scale.

Funding allocations through the NSW government projects round did not follow the advice of the agencies that administered the program and were not aligned with the stated objectives of the WestInvest program.

The community projects competitive grants round and the local government projects grants round of the program were administered effectively, with the exception of some relatively minor gaps in documentation and in quality assurance of internal and external advice.

NSW Treasury was asked to provide the proposal for the WestInvest program within a very short timeframe, which limited its ability to complete thorough analysis to support the development of the proposal. There was no business case or other economic analysis conducted to support consideration of the potential benefits, costs and consequences of funding a \$5 billion community infrastructure program to a specific area of Sydney. The NSW government has a policy of maintaining a AAA credit rating for the State of New South Wales. This is codified in the *Fiscal Responsibility Act 2012* but the government did not have sufficient regard to the implications of committing funding to the WestInvest program on its credit rating.

The audited agencies advised that decisions about the eligibility criteria, the areas of focus for the program, and the LGAs that were eligible to apply for funding, were made by the then Treasurer's office. The rationale for these decisions was not documented and was not made public. There was no consultation with councils in the eligible LGAs before the program design was decided, which meant the strategic priorities of councils and other organisations in the eligible LGAs were not formally considered in the program design.

The NSW government projects round, which made up \$3 billion of the \$5 billion fund, did not have a consistent assessment process, with changes made to the guidelines after applications had been assessed. There was also a lack of clarity about the assessment and approval process. Many projects that had no clear link to the purpose of the program were allocated funding, against the advice that was provided by the WestInvest steering committee. Following the change of government at the 2023 NSW State election, multiple changes were made by the new government to the funding allocations. Eleven previously announced projects lost their funding allocations, while 17 new projects that had been announced as commitments during the election campaign received WestInvest funding.

The assessment process and the award of funding for the \$1.6 billion community projects competitive grants round and the \$400 million local government projects grants round complied with NSW government requirements and WestInvest program guidelines. The WestInvest program guidelines for this funding round did not require that funding should be distributed in an equitable or needs-based way. The use of a competitive grant funding process for the \$1.6 billion community projects round resulted in a significant imbalance in the distribution of funding between the 15 eligible LGAs.

The assessment processes were conducted in accordance with defined probity principles and processes. The rationale for some recommendations and decisions on funding were not fully documented, which reduced transparency about the decision-making for some projects. There was limited quality assurance of the external advice from consultants that was used to support project assessments, which contributed to inconsistency in some elements of the assessment process. These weaknesses were caused by a combination of factors, including the very large scale of the program, the short timeframes, and the subjective nature of the program objectives and assessment criteria.

1. Key findings

The design of the WestInvest program was not informed by research and analysis to support the best use of a funding commitment of this scale

The WestInvest program involved the commitment of a large amount of funding in a short period of time. The total funding commitment of \$5 billion was initially presented as an economic stimulus measure linked to the COVID-19 pandemic. However, there was no business case or other economic analysis conducted to support consideration of the potential benefits and costs of the program. NSW Treasury was asked to provide the proposal for the WestInvest program within a very short timeframe, during the week prior to the announcement of the program. This limited NSW Treasury's ability to complete thorough analysis to support the development of the program.

There was no documentation of the rationale for the chosen objectives and focus areas for the program, or the decision to use a competitive grants round to allocate some of the funding. Similarly, the decisions about which LGAs were eligible for funding through WestInvest were not explained publicly or documented internally. NSW Treasury advised these decisions were made by the then Treasurer's office. There was no consultation with other government agencies, councils, or other stakeholders before the program design was decided. This meant the priorities of councils and other organisations in the eligible LGAs were not considered in the program design. The risks relating to the capability of potential applicants, including councils, to deliver infrastructure projects were not considered until after the program design had been decided. The Premier's Department conducted consultation and commissioned research to provide information on community infrastructure in eligible LGAs, but this was done after the program design had been decided.

The NSW Government has a policy of maintaining a AAA credit rating for the State of New South Wales. This is codified in the *Fiscal Responsibility Act 2012*. The NSW Government did not have sufficient regard to the implications and risks of committing \$5 billion of funding to the WestInvest program for its credit rating. A risk to the State's credit rating arose because the government may have been perceived to be using proceeds from major asset sales to fund new expenditure, rather than pay down its debt.

Many projects that had no clear link to the purpose of the WestInvest program were allocated funding through the NSW government projects round

The advice from the WestInvest steering committee about the eligibility and merits of projects in the NSW government projects round was not followed consistently by the then Treasurer, and justifications for the funding decisions made by the Treasurer were not documented.

NSW Treasury prepared guidelines for the NSW government projects round before the assessment process for the NSW government projects round commenced. These guidelines were not approved by the then Treasurer and were later amended at the request of the then Treasurer's office in a way that made them less consistent with the original purpose of the WestInvest program.

Following the changes to the original guidelines, multiple projects that had no clear link to the purpose or focus areas of WestInvest were approved for funding. This included state school and road infrastructure projects that were allocated funding after being assessed by the WestInvest steering committee as ineligible or unsuitable for funding against the original program guidelines. Infrastructure projects such as these would normally be considered for funding through the annual budget process.

Following the change of government at the 2023 NSW State election, many of the funding decisions announced by the former government were changed. The new government had announced during the election campaign that if elected, it would redirect some WestInvest funding 'to rebuild Western Sydney schools and Western Sydney hospitals'. NSW Treasury advised the audit team that the new government decided not to fund 11 of the projects that had been announced previously and instead it allocated this funding to 17 new projects, all of which are state school, health, or transport infrastructure projects in the western Sydney region. Of these, 15 projects did not have business cases completed, as required by NSW government rules.

The competitive grants round complied with the NSW grants administration guide and the WestInvest program guidelines but did not require, or result in, an equitable distribution of funding

The then Treasurer approved all projects that had been recommended by the WestInvest steering committee. All projects that were recommended for funding had been assessed using the same process and had been rated by an assessment panel as eligible and having merit for funding. The process used for the award of funding was consistent with NSW government requirements and the WestInvest program guidelines. The guidelines for the WestInvest program did not specify that funding should be distributed equitably between applicant types or the eligible LGAs, or that the relative need for community infrastructure should be considered. The use of competitive grant funding for the \$1.6 billion community projects round resulted in significantly more funding going to local councils compared to the other types of eligible applicants (community groups, Local Aboriginal Land Councils, and educational institutions). The local councils had more resources and experience in preparing grant applications compared to most community groups and this gave them a major advantage when applying for funding. The use of a competitive process also led to a significant imbalance in the distribution of funding between the eligible LGAs. This was caused by differences between the capability and capacity of councils to prepare high-quality funding applications, especially at short notice.

The rationale for some funding recommendations and decisions was not fully documented

The Premier's Department's process for making funding recommendations to the Treasurer included using a 'program alignment panel' to consider the overall funding allocations. The panel identified an imbalance in the funding allocation between LGAs and made several changes. This involved adding five projects in two LGAs that had less funding allocated, and removing nine projects from LGAs that received more funding. The alignment panel did not document the reasons for the specific changes it made to the recommendations from the assessment panels or explain why other changes that could have addressed the identified imbalance more comprehensively were not made.

The then Treasurer selected an additional four projects for funding. These had not been recommended by the WestInvest steering committee but were rated as 'having merit' for funding and were in the four LGAs that had received the least funding. The reasons for selecting the specific projects that were added, rather than other projects within the same LGAs that had received the same assessment scores, was not documented by the then Treasurer.

The application and assessment process for the community projects competitive round complied with NSW government requirements and WestInvest program guidelines, but it had some gaps in quality assurance

The Premier's Department prepared program guidelines, assessment plans and probity plans for the community projects competitive round. These were consistent with NSW government requirements and had a focus on probity and fairness. The Premier's Department communicated effectively with program applicants about the program after it was announced. This included meeting with all local councils in the eligible LGAs and a range of community stakeholders in the western Sydney region.

All applications were assessed in accordance with the program guidelines and plans, including probity requirements. There were more than 600 applications received and the assessments were conducted within a short timeframe set by the government. To meet these timelines, 29 separate assessment panels were used and some of the analysis to support assessments was outsourced to consultants. The Premier's Department conducted limited quality assurance or consistency checks on assessments. Our analysis indicates that the external advice on project delivery and the financial viability of the applicants was inconsistent. There was also considerable variation in average scores and recommendations across the 29 assessment panels.

The administration of the local government projects round complied with NSW government requirements and WestInvest program guidelines

The then Treasurer approved all projects recommended by the WestInvest steering committee for the non-competitive local government projects round. All projects that were recommended for funding had been assessed using the same process and had been rated by an assessment panel as eligible and having merit for funding.

The inconsistency in the external advice and assessment panel scoring noted above in relation to the community competitive round was also evident in the local government projects round. However, this was less significant for the local government projects round because it was a non-competitive process, which meant that differences in the scores had less impact on funding decisions.

The areas of focus and assessment criteria for the community projects competitive round and the local government projects round were the same. The average assessment panel scores for the projects funded through the local government projects round was considerably lower compared to the projects funded through the community projects competitive round. Thirty-seven of the projects that were funded through the local government round received assessment scores that would not have been high enough to gain funding through the competitive round.

2. Recommendations

When providing advice for submissions by Ministers to Cabinet or Cabinet committees, agencies should:

1. Ensure that advice provided by departmental staff is clearly identified and is distinct from other advice or political considerations.

For future government funding programs, agencies should:

2. Provide sufficient time to conduct research, analysis and consultation with key stakeholders before deciding on the design of funding programs.
3. Ensure funding program guidelines are fully developed and approved before the program commences and applications for funding are sought.
4. When considering using competitive grant funding programs, assess whether this is the most efficient, effective, and equitable funding mechanism to achieve the stated purpose of the program.
5. If using competitive grant programs, provide sufficient time for quality assurance and consistency checks when assessing applications, especially when external advice is being used to support an assessment process.

1. Introduction

1.1 Overview of the WestInvest program

Program aims and areas of focus

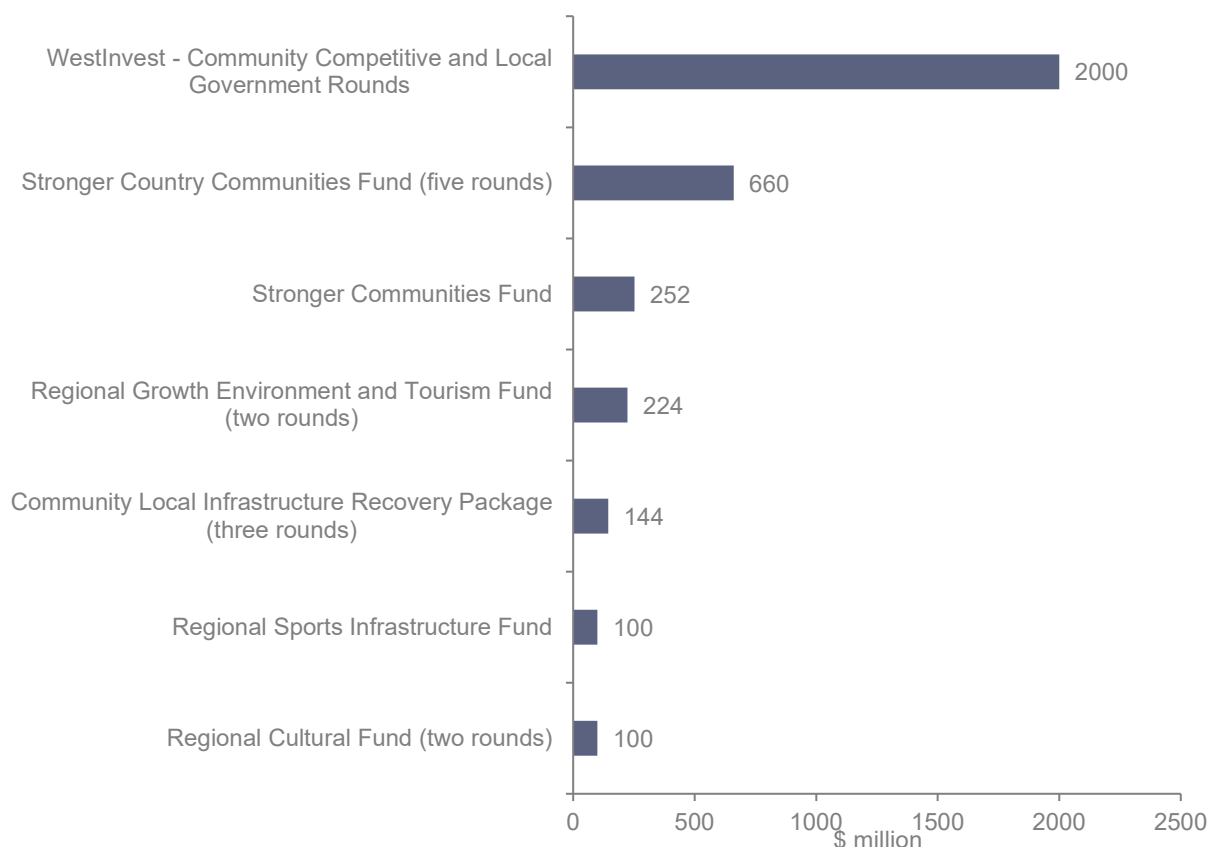
WestInvest is a \$5 billion funding program that was announced in September 2021. The announcement stated the program was established with the aim of building 'new and improved facilities and local infrastructure to help communities hit hard by COVID-19'. The government's announcement also said that the program would help 'create jobs, at a critical time, as NSW begins its economic recovery from the second wave of the COVID-19 pandemic'.

In April 2022, the NSW Government stated that the WestInvest program was designed to fund 'transformational infrastructure projects' that will enhance communities.

WestInvest was divided into three funding streams. The \$3 billion NSW government projects round was open to NSW government agencies. The \$1.6 billion community projects competitive round was open to local councils, non-government organisations, Local Aboriginal Land Councils, and educational institutions. The \$400 million local government projects round was administered as a non-competitive grant round that was only open to 15 eligible councils.

The total amount of funding available through WestInvest was considerably larger than other recent NSW government grant programs (Exhibit 1).

Exhibit 1: Comparison of total value of recent NSW government grants programs



Source: Data is drawn from previous Audit Office reports and published data on NSW government grant funding programs.

The WestInvest program had six areas of focus that were determined by the government :

1. quality green and open spaces – more parks and healthier natural environments that encourage active lifestyles, restore biodiversity and improve access to the environment. Cleaner natural waterways with improved access for recreation.
2. community infrastructure – improved access to quality sport, recreation and other community facilities that bring people together and enable a diverse range of activities.
3. school modernisation – state-of-the-art, cooler and accessible education facilities that can adapt to evolving learning standards and student needs. Infrastructure that prepares students for an increasingly digital world.
4. arts and cultural facilities – a broader range of arts and culture venues that reflect the diversity of Western Sydney, encouraging inclusive and regular community participation.
5. high street activation – increasing the vibrancy of precincts to increase footfall for businesses. Targeted improvements to public amenities and allowing easier access to essential goods and services within walking distance.
6. local traffic programs – local streets are designed as comfortable, accessible and safe places for people with diverse use needs, including walking, wheeling and cycling.

Eligible local government areas

Fifteen local government areas (LGAs) in the western Sydney region were eligible for the program. These were the 12 LGAs considered to be ‘western Sydney’ in NSW Budget papers, plus Burwood, Canterbury-Bankstown and Strathfield.

Exhibit 2: Map of Local Government Areas eligible for WestInvest funding



Source: NSW Government website, WestInvest - About WestInvest. Accessed 13 September 2023.

Administration of the WestInvest program

The WestInvest program was administered by NSW Treasury and the Premier's Department (then the Department of Premier and Cabinet). NSW Treasury administered the NSW government projects round of the program and the Premier's Department administered the community projects and local government projects rounds. The total program was overseen by a steering committee that was chaired by the Secretary of NSW Treasury and included the Secretary of the then DPC and the CEO of Infrastructure NSW.

The then Treasurer was the statutory decision-maker for WestInvest, as the funding was paid from the Community Services and Facilities Fund, which is established under the *NSW Generations Funds Act 2018*. Following consideration by the Expenditure Review Committee of Cabinet (ERC), decisions about funding allocations were made by the then Treasurer.

The NSW Government announced funding allocated through the WestInvest program in stages between October 2022 and 2 March 2023. The caretaker period commenced on 3 March, ahead of the NSW state election on 25 March 2023.

1.2 About the audit

The objective of this audit was to assess the integrity of the design and administration of the WestInvest program. To make this assessment, the audit considered the use of evidence in the design and implementation of the program and analysed the processes used for assessing projects and supporting funding decisions.

The audit did not reassess individual project applications or make judgements about the merits of individual projects or applicants that did or did not have funding allocated to them.

2. Design of the WestInvest program

Decisions about the objectives and focus areas for the program were made without advice or analysis from the agencies that administered the program

The WestInvest program involved the commitment of \$5 billion as a stimulus measure linked to economic recovery from the COVID-19 pandemic. However, there was no business case or other economic analysis conducted to support consideration of the potential benefits and costs of the program. Media releases and the public guidelines for WestInvest stated that western Sydney was affected by the COVID-19 pandemic more severely than other parts of Sydney and regional NSW. These assertions were not supported by evidence or analysis.

Evidence from NSW Treasury provided for this audit indicates that it was asked to prepare the initial proposal for the WestInvest program within a very short timeframe. This limited its ability to conduct research, analysis and consultation that could have informed the development of the program. This is particularly important for the integrity of decisions involving large-scale spending. Staff from NSW Treasury and the Premier's Department advised the audit team that the areas of focus for WestInvest were decided by Ministers and their staff without advice from the audited agencies. There is no documented analysis justifying the decision to focus the program on community infrastructure, or the six 'areas of focus' that were selected. The Premier's Department commissioned research from Western Sydney University after the areas of focus for the program had been decided. This did not inform decisions about the program focus but aimed to provide baseline information about community infrastructure in the 15 eligible LGAs which could be used in program evaluation.

The rationale for making 15 LGAs eligible for the program was not clear

It is not clear how the government decided which LGAs would be eligible for WestInvest funding. Public communication about the program referred to the western Sydney region and commented on areas that had been 'hit hard' by the COVID-19 pandemic. The specific factors that were used to decide which LGAs were eligible were not explained publicly or documented.

In the 2019–20 NSW Budget papers, "western Sydney" was defined as 12 LGAs. All of these were included as eligible for the WestInvest program. The additional three LGAs that were made eligible for the WestInvest program (Burwood, Canterbury-Bankstown, and Strathfield) were not within the NSW Budget papers definition but were designated "areas of concern" during the COVID-19 pandemic, which meant they were subject to more restrictions than other LGAs at certain points.

Georges River and Bayside LGAs both made public statements that drew attention to the fact that they were not made eligible for the WestInvest program despite being designated areas of concern. Several of the 15 LGAs that were made eligible for WestInvest had not been designated areas of concern during the pandemic, including Penrith, The Hills, and Blue Mountains.

There was no consultation with eligible councils or other key stakeholders before the program design was decided

The program design had not been subject to consultation with councils or other relevant organisations in western Sydney. This meant that the views of eligible councils and community organisations on strategic priorities in their respective communities were not considered before decisions on program design were made.

Staff from some councils interviewed by the audit team indicated that while funding for community infrastructure is welcome, some councils had other priority areas for infrastructure development that were at least as high as new community infrastructure. As independent entities, each council has its own strategic planning processes to identify and plan for infrastructure projects and other areas of need. These were not considered in the design of the WestInvest program.

Staff at several councils we spoke to highlighted delivery risks to the projects for which they had been allocated funding. These included:

- the short timetable set by the then government (considering the amount of funding available and the requirements for applications) meant that full project development and assurance processes were not completed for most applications when they were submitted
- difficulty complying with the government's administrative and assurance requirements for funding recipients, such as detailed planning and reporting.

When early planning for WestInvest was being done, both NSW Treasury and the Premier's Department identified the risk that applicants may not be able to deliver funded projects on time or within budget. The absence of consultation, research and analysis before the program design was finalised meant that these factors were not considered before the government had committed to the program. We did not see evidence that the then government had considered the cumulative impact of an additional \$5 billion in infrastructure projects on the costs of materials and skilled labour concentrated in the eligible LGAs.

The Premier's Department conducted an online survey (WestInvest 'Have Your Say'), between 23 February 2022 and 31 March 2022. This was open to the public and asked questions about which of the six 'areas of focus' were most important to them and what type of community infrastructure projects they would like to see. This found higher levels of community support for two of the six areas (community infrastructure and green and open space).

On 18 April 2022, the Premier's Department released a summary report on the findings of the WestInvest 'Have Your Say' Survey. The Premier's Department noted that the survey was for consultation purposes only and did not form part of the application process for the WestInvest program. The Premier's Department stated in its summary report that the survey results 'will feed into the assessment process across the WestInvest Program'.

However, the Premier's Department staff interviewed by the audit team told us that the survey results did not play any formal role in the assessment process or funding recommendations for projects. The survey did not provide data that could be used to inform assessment decisions because:

- responses could be submitted by any member of the public who accessed the survey, not just those living in the LGAs that were eligible for the program, so the data could not be taken as representative of the views of the residents of eligible LGAs
- many survey responses were ruled ineligible as they were deemed to be associated with a community campaign that related to projects outside the focus areas of WestInvest.

The government did not have sufficient regard to risks to the State's credit rating when establishing the WestInvest program

The NSW Government has a policy of maintaining a AAA credit rating for the State of New South Wales. This is codified in the *Fiscal Responsibility Act 2012*. The NSW Government did not have sufficient regard to the implications and risks of committing \$5 billion of funding to the WestInvest program to its credit rating. A risk to the State's credit rating arose because the government may have been perceived to be using proceeds from major asset sales to fund new expenditure, rather than paying down State debt.

3. NSW government projects

The \$3 billion NSW government projects round was open to NSW government agencies and administration of the round was led by NSW Treasury. Funding allocated through this round was not subject to the NSW Grants Administration Guide. This is because the funding was awarded to NSW government agencies rather than organisations external to government, so it did not meet the definition of a grant program. Projects were submitted by NSW government agencies to NSW Treasury and were assessed against program criteria by staff from NSW Treasury and the Premier's Department. Each project received a score and advice on whether it was suitable for funding or not. The WestInvest steering committee considered these and provided advice to the then Treasurer.

NSW Treasury prepared guidelines for the \$3 billion NSW government projects round, but these were not approved by the then Treasurer until after the program assessment had commenced

NSW Treasury prepared guidelines for the NSW government projects round in September 2021. These were submitted to the then Treasurer for approval in December 2021 but were not approved. This meant that the process for assessing applications for NSW government projects was not agreed between government agencies and the then Treasurer, who was the statutory decision-maker of the allocations of funding. NSW Treasury subsequently prepared an assessment plan based on the unapproved guidelines, which set out more details about the process to be used for assessing applications for the NSW government projects round. The program guidelines were not published, which meant there was no public information about the process for assessing the largest component of the WestInvest program.

In May 2022, the then Treasurer's Office requested that NSW Treasury make changes to the unapproved guidelines so that projects that delivered 'business as usual' state government infrastructure such as schools, roads, and health infrastructure were no longer considered ineligible for the program. These revised guidelines were approved in June 2022, but were not published. The changes were not consistent with the initial purpose of the WestInvest program which was to fund 'transformational' community infrastructure.

The funding advice from the WestInvest steering committee was not followed by the then Treasurer and the justifications for the funding allocation decisions were not documented

One-third of the projects that were allocated funding (9 out of 27) had been assessed by the WestInvest steering committee as having low or moderate merit. These projects were allocated combined funding of \$1.1 billion. Reasons that the steering committee gave for assessing these projects as not suitable for funding through the WestInvest program included the absence of completed business cases, incomplete project development, and poor alignment to the objectives and criteria for the WestInvest program as outlined in the original program guidelines.

Staff from NSW Treasury and the Premier's Department put considerable resources into preparing guidelines and assessing and providing advice on the merits and eligibility of applications against these guidelines, but in most cases the advice was not followed by the then Treasurer. There was no documentation of reasons for the departures from steering committee advice. The NSW government projects round was not subject to the NSW Grants Administration Guide, so the requirement under those guidelines for documenting reasons for departures from advice on funding decisions did not apply. However, when the WestInvest program was established, it was noted that any departures from the funding advice from the steering committee would be documented by the then Treasurer. This applied to the entire WestInvest program. None of the projects that were allocated funding through the NSW government projects round were actually given funding, as only allocations of funding were approved by the then Treasurer.

Most of the funding was allocated to projects that did not align with the purpose of WestInvest or meet the assurance requirements of the program

Of the 27 projects that were allocated funding (Exhibit 3), 12 were from the Department of Education and seven from Transport for NSW. This resulted in over \$2 billion, or 69% of the funding available through the NSW government projects round, being allocated to state school and road projects. Most of these projects were not aligned with any of the six focus areas of the WestInvest program. In addition, these projects were examples of 'business as usual' activities of NSW government agencies that did not clearly align with the initial purpose of the program to deliver transformational community infrastructure that would improve liveability in the 15 eligible LGAs.

Exhibit 3: NSW government projects round funding allocations announced prior to the 2023 NSW State election

State schools

- Upgrade nine public schools across western Sydney (\$478 million)
- Improve cooling in 84 public schools across western Sydney (\$131 million)
- Westmead Education Campus (\$308 million)
- Box Hill (Terry Road) new school (\$112 million)

State roads

- M7 Motorway connections - Townson Road and Richmond Road (\$285 million)
- Elizabeth Drive upgrade (\$200 million)
- Henry Lawson Drive stage 1B (\$200 million)
- Richmond Road Marsden Park (\$100 million)
- Garfield Road east (\$100 million)
- Pitt Town bypass (\$100 million)
- Londonderry Road flood evacuation improvements (\$15 million)

Health

- Integrated community health hubs in Liverpool and Glenfield (\$243 million)

Open spaces

- Australian Botanic Garden Mount Annan masterplan stage 1 (\$204 million)
- Salt Pan Creek parklands (\$86 million)
- Fernhill Estate transformation (\$65 million)
- The People's Loop Parramatta (\$56 million)
- Penrith Lakes parkland (\$15 million)

Arts and community infrastructure

- Transforming Parramatta's Roxy Theatre (\$122 million)
- Western Sydney Stadium precinct community-based asset (\$111 million).

Source: NSW Treasury documents.

Conditions were attached to the approval of funding allocations for 21 of the 27 projects. Most of these conditions related to the completion of a business case and other project assurance requirements, which were required under the program guidelines.

Projects approved through the WestInvest program were to receive funding from the Community Services and Facilities Fund (CSFF), which is a legislative fund created under the *NSW Generations Funds Act 2018* (the Act). The Act states that the purpose of the CSFF is to provide funding for 'cost-effective facilities and services' (s.12(1)). The absence of business cases and other assurance requirements from most of the projects approved created the risk of legislative non-compliance, as many of the projects that had been allocated funding could not clearly demonstrate that they would be cost-effective.

NSW Treasury and the Premier's Department's assessment of the first group of projects submitted for the NSW government projects round indicated that agencies applying for funding did not understand the purpose or requirements of the program. NSW Treasury and the Premier's Department received 153 applications after the first call for proposals. Most did not align with the stated purpose of WestInvest or meet the assurance requirements that had been set for the program. For example:

- 90 project proposals (59% of those submitted) were assessed as ineligible. Thirty-five of the 90 did not include any infrastructure, which was the main purpose of the WestInvest program. The other 55 proposed infrastructure projects were not consistent with any of six areas of focus for the program.
- 118 proposals (77% of proposals submitted) did not have a business case, which was a requirement of the WestInvest program guidelines.

As the first request for project proposals did not generate enough suitable applications, the then Treasurer made a second request to NSW government agencies in August 2022 seeking additional project proposals. This occurred after the guidelines for the NSW government projects round had been broadened to allow more projects to be considered for funding (discussed above).

Multiple state school projects were allocated funding after being assessed by the WestInvest steering committee as ineligible or unsuitable for funding

The Westmead Education Campus project, valued at \$308 million, was rated as ineligible by NSW Treasury and the Premier's Department because it did not address any of the six specified focus areas for the WestInvest program. This meant it did not go through a full assessment against the program criteria and was not submitted to the then Treasurer for funding consideration.

The project was later re-submitted and the then Treasurer subsequently approved it for funding allocation. This occurred after the guidelines for the NSW government projects round had been broadened (discussed above). NSW Treasury's advice on this submission noted that the project had not been fully developed, with key decisions about the delivery model not made, and it did not have a final business case.

The Box Hill (Terry Road) new school project, valued at \$112 million was rated as 'moderate – not suitable for funding consideration at this time' by the WestInvest steering committee. It was subsequently approved for funding by the then Treasurer.

Nine school upgrade projects with a total value of \$478 million were allocated funding by the then Treasurer. Each of these had been assessed as ineligible by NSW Treasury and the Premier's Department against the original program guidelines because they did not meet any of the WestInvest focus areas and were not considered 'transformational'. There were a further 14 similar proposals for school upgrades that were also assessed as ineligible but were not allocated funding.

Funding allocations from the WestInvest program were changed after the 2023 NSW State election

Following the change of government at the 2023 NSW state election, most of the funding decisions announced by the former government were changed. The new government had announced during the election campaign that, if elected, it would redirect some WestInvest funding 'to rebuild Western Sydney schools and Western Sydney hospitals'. Eleven of the 27 projects that had been announced by the former government were not funded by the new government. The combined value of these projects was at around \$1.5 billion (Exhibit 4). The seven roads projects that had been allocated funding through WestInvest, valued at \$1 billion, were also removed from the WestInvest funding allocation but these still received funding from a different source.

Exhibit 4: Projects from the NSW government projects round not funded post-2023 NSW State election

State schools

- Improve cooling in 84 public schools across western Sydney (\$131 million)
- Westmead Education Campus (\$308 million)
- Box Hill (Terry Road) new school (\$112 million)

Health

- Integrated community health hubs in Liverpool and Glenfield (\$243 million)

Open spaces

- Australian Botanic Garden Mount Annan masterplan stage 1 (\$204 million)
- Salt Pan Creek parklands (\$86 million)
- Fernhill Estate transformation (\$65 million)
- The People's Loop Parramatta (\$56 million)
- Penrith Lakes parkland (\$15 million)

Arts and community infrastructure

- Transforming Parramatta's Roxy Theatre (\$122 million)
- Western Sydney Stadium precinct community-based asset (\$111 million).

Source: NSW Treasury documents.

The funding was reallocated to 17 projects that the new government had announced as election commitments during the 2023 State election campaign. This comprised ten school infrastructure projects, five health infrastructure projects, and two transport infrastructure projects. All of these projects had a cost of more than \$10 million each, which means they are subject to NSW Government business case and gateway assurance requirements. Business cases had been completed for the two transport projects. The other 15 projects did not have business cases.

Exhibit 5: Election commitments funded through WestInvest, post-2023 NSW State election

State schools

- New primary school near Sydney Olympic Park (\$71 million)
- New high school for Melrose Park (\$98 million)
- Convert Eagle Vale High School into a sports high school (\$4 million)
- Build new high school in Jordan Springs (\$132 million)
- Dundas Public School upgrade (\$6 million)
- New high school for Schofields and Tallawong (\$130 million)
- The Ponds High School upgrade (\$15 million)
- New public high school in Gledswood and Gregory Hills (\$118 million)
- New high school in Leppington/Denham Court (\$125 million)
- Kingswood Public School upgrades (\$13 million)

Health

- Additional beds at Mt Druitt Hospital (\$60 million)
- Additional beds at Blacktown Hospital (\$60 million)
- Expansion of Scope of new Rouse Hill Hospital (\$400 million)
- Canterbury Hospital extension and upgrade (\$350 million)
- Fairfield Hospital extension and upgrade (\$350 million)

Transport

- More accessible, safe and secure train stations (\$300 million)
- Active Transport (\$60 million)

Source: NSW Treasury documents.

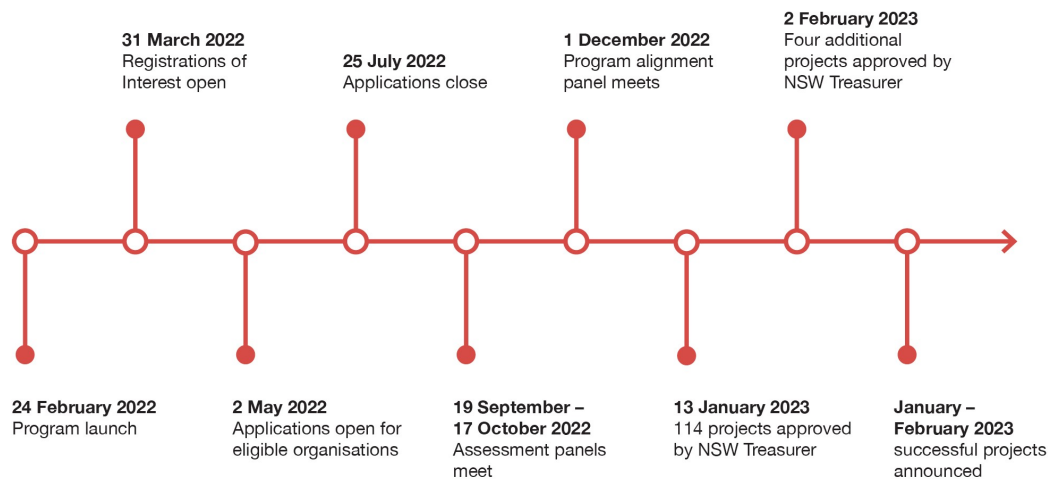
After these changes, the \$3 billion NSW government projects round funding distribution was:

- Nine school upgrades, valued at \$478 million, that had been allocated funding by the former government (see Exhibit 3).
- 17 new projects, with a total value of around \$2.3 billion, that had been announced as election commitments by the new government (Exhibit 5). All of these are state school, health, or transport infrastructure.
- Three projects that covered administrative costs associated with the WestInvest program, with a total value of around \$230 million (not previously announced).

4. Community project grants

The \$1.6 billion community project grants - competitive round was open to local councils, NGOs, Local Aboriginal Land Councils, and educational institutions, across 15 eligible LGAs in western Sydney. Exhibit 6 shows a timeline of key dates for the community project grants - competitive round.

Exhibit 6: Timeline for the community project grants - competitive round



Source: Audit Office analysis of Premier's Department documents.

Applications for funding were submitted to the Premier's Department and were assessed by assessment panels against published criteria. There were 29 assessment panels, with a total of 84 NSW Government agency staff involved. All eligible applications were assessed against the following five criteria:

1. **Liveability** – Demonstrate how the project will enhance or improve liveability for a defined community.
2. **Transformational** – Demonstrate how the project's liveability outcomes will endure over time, and/or can augment community benefits with other initiatives and/or capitalises on a time-limited opportunity.
3. **Value for Money** – Demonstrate that the project is cost effective and will deliver benefit to the community.
4. **Deliverability** – Demonstrate that the applicant has the capacity and expertise to deliver the project within budget and timeframes and has or can obtain all necessary approvals and consents.
5. **Viability** – Demonstrate that the owner of the infrastructure can manage and maintain it.

External advice was sought on the criteria for value for money, deliverability and viability.

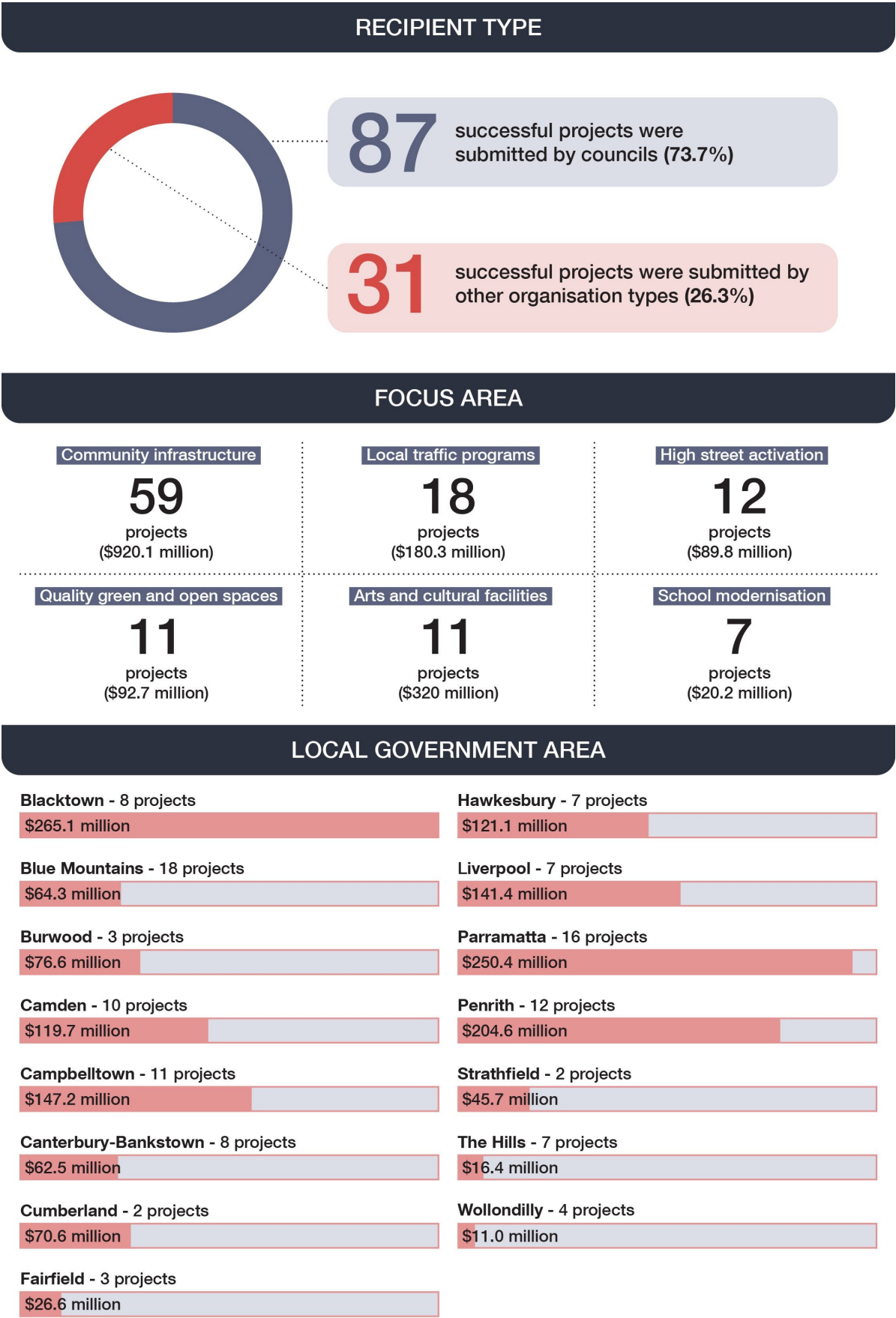
Recommendations made by the assessment panels were reviewed by an 'alignment panel' set up by the Premier's Department, which considered the overall distribution of the funding according to five criteria:

1. Geography: are the projects assessed as having merit collectively delivering benefits to communities across all 15 eligible LGAs?
2. Focus Areas: are the projects assessed as having merit collectively providing sufficient benefits across all six focus areas?
3. Transformational scale: is there a mix of projects delivering benefits to communities at a local, LGA and regional scale and across multiple timescales including delivering long-term, enduring benefits?
4. Affordability: can the collective pool of final recommended projects be accommodated within the fixed funding allocation for the Community Project Grants?
5. Complementarity: are the projects consistent with or complementary to other projects already determined for State Government Projects or Council Projects?

The alignment panel prepared a report for the WestInvest steering committee, which provided funding recommendations to the then Treasurer.

There were 683 applications for funding in this round. Of these, 664 were deemed eligible and reviewed against the published assessment criteria. A total of 118 projects were approved for funding.

Exhibit 7: Summary of funding allocation for the community project grants - competitive round



Source: Premier's Department data (unaudited).

4.1 Program guidelines and communication

The Premier's Department developed guidelines for the community projects competitive round and the local government projects round that were consistent with NSW government requirements

The Premier's Department developed guidelines that set out the program purpose, areas of focus, and eligibility requirements that had been approved by government. The guidelines considered relevant legislative and NSW Government policy requirements. This included anticipated changes to the NSW Grants Administration Guide that had not been finalised but were expected to be in place when grant assessments for WestInvest would be taking place.

The Premier's Department prepared assessment plans to set out the details of the assessment process and help participants in assessment panels understand the processes used. Probity plans were prepared and implemented, setting out approaches to the more challenging aspects of grant administration including interactions with Ministers and MPs and the management of conflicts of interest. An external probity advisor for the WestInvest program was appointed in February 2022.

The Premier's Department communicated effectively about applying for the community projects competitive round and local government projects round of WestInvest

Premier's Department staff met with all eligible councils and other stakeholders in Western Sydney in early 2022 to explain and promote the program. They also conducted multiple online information sessions in the following months that prospective applicants could attend. These provided information about the program and gave applicants opportunities to clarify questions about the application process.

The program guidelines for the community projects competitive round and local government projects rounds were published on the WestInvest website. The Premier's Department also published a probity plan for the program and provided templates and guidance for project applications, such as model business cases.

All council staff we interviewed during this audit said that Premier's Department staff provided clear and consistent advice about the purpose of the program and the requirements for applying for funding. Most council staff we spoke to felt that while the concepts of 'transformation' and 'liveability' were broad, they understood what the objectives of the community projects and local government projects rounds were. Council staff who were involved in preparing applications reported that Premier's Department staff were responsive to their requests for advice about the application process.

4.2 Funding decisions and outcomes

The then Treasurer approved all projects that had been recommended by the WestInvest steering committee

The WestInvest steering committee provided a report to the then Treasurer detailing the assessment process. The report listed the recommended projects and the other projects that had been assessed but not recommended for funding. It included the scores given by the assessment panels against each criteria for every project and a brief rationale for those scores.

All projects that received funding had been judged as eligible for funding through the program, rated as having merit against each of the assessment criteria and had total scores of 36 or higher out of 45.

The then Treasurer approved all projects that were recommended by the WestInvest steering committee. The projects recommended by the steering committee took up 99.9% of the budget for the community projects competitive round. An unallocated \$494,274 was recommended to be kept as a program level contingency in the event of a cost overrun.

The then Treasurer added four projects to those that had been recommended for funding by the WestInvest steering committee

On 24 January 2022, the then Treasurer's Office requested that NSW Treasury prepare a brief for the then Treasurer to approve funding for four additional projects through the community projects competitive round. The funding for these additional projects came from a transfer between the NSW government projects round to the community projects competitive round, which was approved by government in early January 2023.

The request stated that the rationale for this was to fund one additional project located in each of the four LGAs with the lowest per-capita funding allocation. The then Treasurer's approval of the four additional projects stated that they were being approved because they had been assessed by the WestInvest steering committee as having merit and would help ensure the benefits of the program were distributed across the 15 LGAs.

The request specified the individual projects that should be recommended, stating that these were the next-highest scoring projects in each of the LGAs. However, there were multiple projects in each of the LGAs that had received the same score. There was no rationale provided for why the four specific projects were chosen ahead of the others that had received the same score in the panel assessment process.

For the Canterbury-Bankstown LGA, the then Treasurer's office requested that the Olympic Ice Rink Roof and Amenities Upgrade project (\$17.7 million) be recommended. On the day the then Treasurer's Office made this request, the NSW Labor Party had made an election commitment to fund an upgrade of the ice rink. There were five other projects within the Canterbury-Bankstown LGA that had received the same score as the ice rink upgrade project that did not receive funding.

Most of the successful applications were submitted by the 15 eligible councils, rather than other community organisations

Eighty-seven of the 118 successful projects (73.7%) were awarded to councils. The combined value of these projects was approximately \$1.3 billion, or 78.5% of the funding awarded through this round. There was no requirement in the guidelines for funding in the community project grants round to be distributed equally among applicant types.

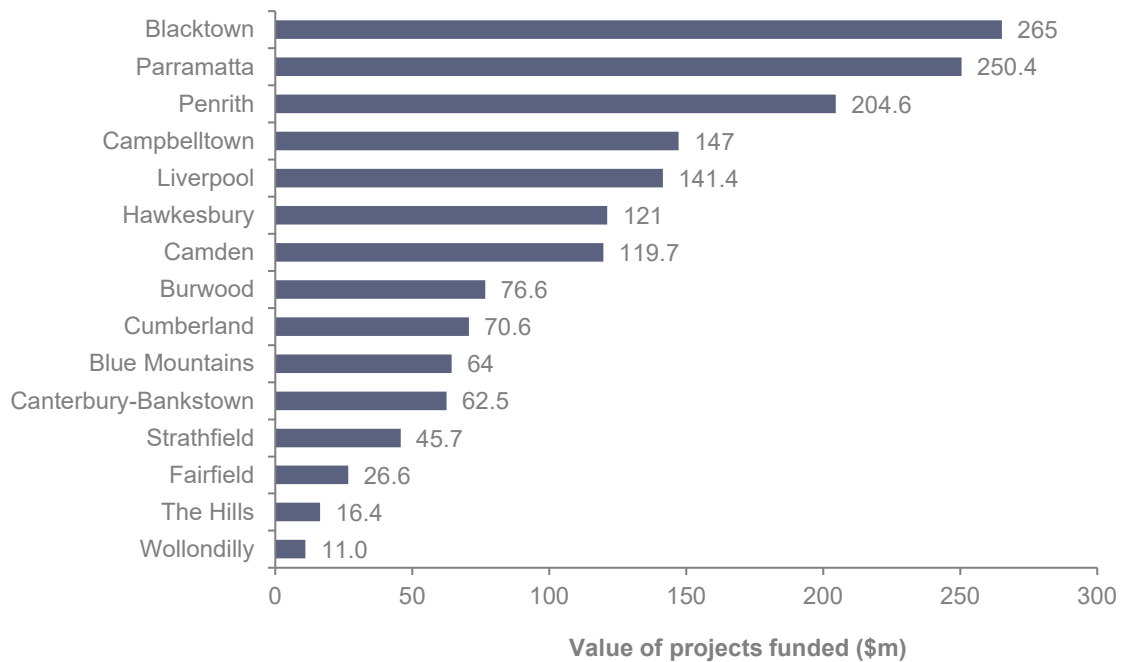
Council applications were much more successful in gaining funding than applications from community organisations. The 15 eligible councils had an overall success rate of 32.7%, while non-council applicants (including community organisations, Local Aboriginal Land Councils and educational organisations) had a success rate of 7.7%.

Staff from 14 of the 15 councils we interviewed during this audit said that the design of the program advantaged council over non-council applicants. Project applications required comprehensive information, which was more difficult for community groups with fewer resources. Several councils also chose not to support community group applications for projects on council land due to different priorities, limited resources, or concern over council assuming ongoing operation and maintenance costs.

The outcome of using a competitive grant funding process was a significant imbalance in funding between the 15 eligible LGAs

The top three highest funded LGAs in absolute terms were Blacktown, Parramatta and Penrith, with projects in each of these LGAs receiving over \$200 million, as shown in Exhibit 8. The lowest-funded LGA was Wollondilly, where a total of \$11 million of projects were funded, with The Hills (\$16.4 million) and Fairfield (\$26.6 million) the next lowest.

Exhibit 8: Funding awarded through the community project grants - competitive round, by LGA



Source: Premier's Department data (unaudited).

When comparing the proportion of funding received to the proportion of the eligible population in each LGA, there was also a significant imbalance. This measure takes account of the relative share of population in each LGA, so gives a more accurate representation of the distribution of funding across the LGAs. By this measure, Parramatta, Hawkesbury and Penrith each received a considerably larger share of the available funding compared to their share of the eligible population. Parramatta received 15.4% of the total funding available in the community project grants competitive round and had 9.5% of the eligible population. This gave it a positive difference of 5.9 percentage points, as shown in Exhibit 9. Canterbury-Bankstown, The Hills and Fairfield received comparably less funding by this measure. For example, Canterbury-Bankstown received 3.9% of the total funding available in the community project grants competitive round and had 13.8% of the eligible population. This results in a negative difference of 9.9 percentage points.

Exhibit 9: percentage of total funding received compared to percentage of eligible population, community project grants - competitive round, by LGA of funding recipient

LGA	% total funding received	% eligible population	% point difference
Parramatta	15.4	9.5	5.9
Hawkesbury	7.5	2.5	5.0
Penrith	12.6	8.1	4.5
Burwood	4.7	1.5	3.2
Camden	7.4	4.4	3.0
Campbelltown	9.1	6.6	2.5
Blacktown	16.3	14.7	1.6
Strathfield	2.8	1.7	1.1
Blue Mountains	3.9	2.9	1.0
Liverpool	8.7	8.7	0
Wollondilly	0.7	2.1	-1.4
Cumberland	4.4	8.7	-4.3
Fairfield	1.6	7.7	-6.1
The Hills	0.9	7.1	-6.2
Canterbury-Bankstown	3.9	13.8	-9.9

Source: Premier's Department data (unaudited).

The initial communication about the WestInvest program stated that it was an economic stimulus program that aimed to help communities that were heavily affected by the COVID-19 pandemic. While this may have suggested that funding would be allocated to areas with a demonstrated need for support, there was no requirement in the community project grants guidelines for the funding to be distributed equally among the eligible LGAs. The use of competitive grant funding meant that funding was allocated based on merit assessments, rather than other considerations such as equity or relative need.

The program alignment panel (described above) was asked to consider whether the projects being recommended for funding were 'collectively delivering benefits to communities across all 15 eligible LGAs'. During the audit, the Premier's Department advised that this was interpreted as assessing whether the projects would provide benefits across multiple LGAs and the western Sydney region. The alignment panel was provided with information on the distribution of funding to each LGA, but the audit team did not see documentation of how assessments were made regarding the potential for projects to have benefits across LGAs or the western Sydney region.

Each of the 15 eligible councils also received funding of between approximately \$21 million and \$35 million through the local government project grants round, which was not a competitive process and aimed to ensure that councils in all LGAs received some funding (see Chapter 5).

As noted above, all of the projects recommended by the WestInvest steering committee were approved by the then Treasurer and one additional project in each of the lowest funded LGAs was added by the then Treasurer. This means the imbalances described above were present in the list of projects recommended by the WestInvest steering committee and were not caused by changes to the funding allocation made by the then Treasurer.

The number and value of funding applications varied considerably across eligible councils

The number and total value of applications made by the councils in each LGA may have affected the funding outcomes. Two of the councils that were among the highest funded LGAs on all of the measures described above (Parramatta and Blacktown) submitted applications with total funding requests of more than \$600 million in the competitive round. Similarly, several of the lowest funded LGAs including Canterbury-Bankstown, The Hills and Fairfield made fewer applications and had lower total funding requests (Exhibit 10). Other factors that may have influenced the uneven distribution of funding across councils and LGAs are discussed in section 4.3.

Exhibit 10: Number of applications and amount of funding requested by councils in the community project grants competitive round (excludes non-council applications)

Council	Number of applications	Funding requested (\$)	Funding received (\$)
Blacktown City Council	12	695 million	238 million
City of Parramatta Council	38	616 million	170 million
Liverpool City Council	21	415 million	126 million
Penrith City Council	35	369 million	152 million
Cumberland Council	8	342 million	54 million
Campbelltown City Council	25	341 million	146 million
Camden Council	25	295 million	108 million
Burwood Council	10	186 million	77 million
Wollondilly Shire Council	21	169 million	10 million
Blue Mountains City Council	33	169 million	62 million
Canterbury-Bankstown Council	7	125 million	20 million
Hawkesbury City Council	9	108 million	75 million
Fairfield City Council	5	66 million	27 million
The Hills Shire Council	11	44 million	8 million
Strathfield Municipal Council	3	8 million	0.6 million
Total	263	3.9 billion	1.3 billion

Notes: Data in this table is for applications made by councils only, it excludes applications made by non-council applicants.

Source: Premier's Department data (unaudited).

The program alignment panel made some changes to recommended projects

The program alignment panel comprised five people who had been assessment panel members for the community projects competitive round. The panel was given a list of 'higher scoring projects' (scoring 37 or more out of 45) that assessment panels had recommended for funding. The program alignment panel's role was to review the recommended projects to identify and address any 'significant imbalance' against five criteria: geography, focus areas, transformational scale, affordability and complementarity.

The panel identified a significant imbalance in two areas :

- affordability, because the total funding requested for the high scoring projects was around \$119 million higher than the total budget for the community projects competitive round
- geography, because some LGAs had significantly more projects recommended for funding than others.

To address the identified 'significant imbalance' in the geography and affordability criteria, the alignment panel made the following changes:

- removed nine projects from LGAs that had received relatively larger amounts of funding: two from Blacktown LGA (\$56.6 million), one from Penrith LGA (\$34.7 million), four from Parramatta LGA (\$21.9 million), one from Campbelltown LGA (\$16.7 million) and one project from Liverpool LGA (\$0.9 million). All of the removed projects had scored 37 out of 45.
- added five projects to two of the LGAs that received the lowest amount of funding overall: three to The Hills LGA (\$4.6 million) and two to Wollondilly LGA (\$6.3 million) to the list of recommended projects. All of the added projects had scored 36 out of 45.

The decisions made by the program alignment panel to add and remove projects and the rationale for those decisions were not made public. The program guidelines had stated that the program alignment process may result in projects that were assessed as having merit not receiving funding.

There were gaps in the documentation of the alignment panel's decision-making process

The alignment panel was given detailed information about the projects on the higher scoring list, which included analysis and visualisations of the distribution of funding across LGAs and by project area. This provided a solid basis for assessing the distribution of funding within the community projects competitive round against the criteria the panel was given.

The alignment panel did not have a structured process for deciding what would constitute a 'significant imbalance' against five criteria (geography, focus areas, transformational scale, affordability, complementarity). The guidance document prepared for the panel stated that a 'significant imbalance is where the mix of projects... are considered to clearly and demonstrably not achieve the objectives of the WestInvest program'. The alignment panel report noted that significant imbalances had been identified but did not describe how the panel reached its judgements about which imbalances were significant and which were not.

The alignment panel report described a process where the panel tested several scenarios to add or remove projects. The report did not explain which options were considered, how decisions about the number of projects to change were made, or why the specific projects were selected for addition or removal. There were no minutes taken from the alignment panel meeting. The Premier's Department advised that it would have been administratively burdensome to document this process.

The alignment panel added projects in The Hills and Wollondilly LGAs to the list of projects recommended for funding because those two LGAs had received the lowest amount of funding on an absolute basis. When the funding distribution is considered on a per capita basis or by comparing the LGA's proportion of the eligible population to the proportion of total funding recommended, Canterbury-Bankstown and Fairfield LGAs both received relatively low funding. The alignment panel did not recommend adding any projects from Canterbury-Bankstown or Fairfield and did not record whether it had considered doing so.

The panel removed nine projects from the five LGAs that had the highest absolute amount of funding. All of the projects removed had scored 37 out of 45, so were among the lowest-scoring projects on the recommended list. A large number of projects scored 37, so in multiple cases the panel decided. For example, in Liverpool and Penrith LGAs there were five projects that had scores of 37 and the panel removed only one of these from each LGA. The panel did not record why these were removed and the others remained, when they had all received the same score from the assessment panel stage.

The assessment plan for the community projects competitive round stated that the alignment panel would consider the funding allocations in other parts of the program when making its 'alignment' recommendations about the distribution of funding. Only nine projects in the NSW government projects round, comprising less than one sixth of the total funding available in this round, had been allocated funding at the time when the alignment panel met. This meant the panel was not able to consider the impact of the NSW government projects funding when making decisions about the community projects competitive round.

4.3 Assessment process

Projects in the community projects competitive round were assessed in accordance with the guidelines and assessment plan

All projects were assessed by panels against the program criteria. Higher-scoring projects were reviewed by a 'program alignment panel' and recommendations for funding were made to the WestInvest steering committee.

Assessment panel members were required to individually assess each application and submit their scores via the SmartyGrants system prior to the assessment panel meeting. The assessment panel then discussed each project and arrived at agreed scores against each of the criteria for each project. Probity advisors also attended assessment panel discussions and prepared reports on compliance with probity requirements.

The probity processes outlined in the probity plan were followed consistently. The appointed probity advisor for the program was consulted on several occasions, including on specific decisions relating to the competitive grants assessment and approval processes. In the cases we reviewed, detailed information, clear questions and detailed supporting information was provided to the probity advisor and the advisor provided written advice on the approach that best aligned with the program guidelines, assessment plans, and the NSW government grants administration guide (where relevant). Examples of this included advice on:

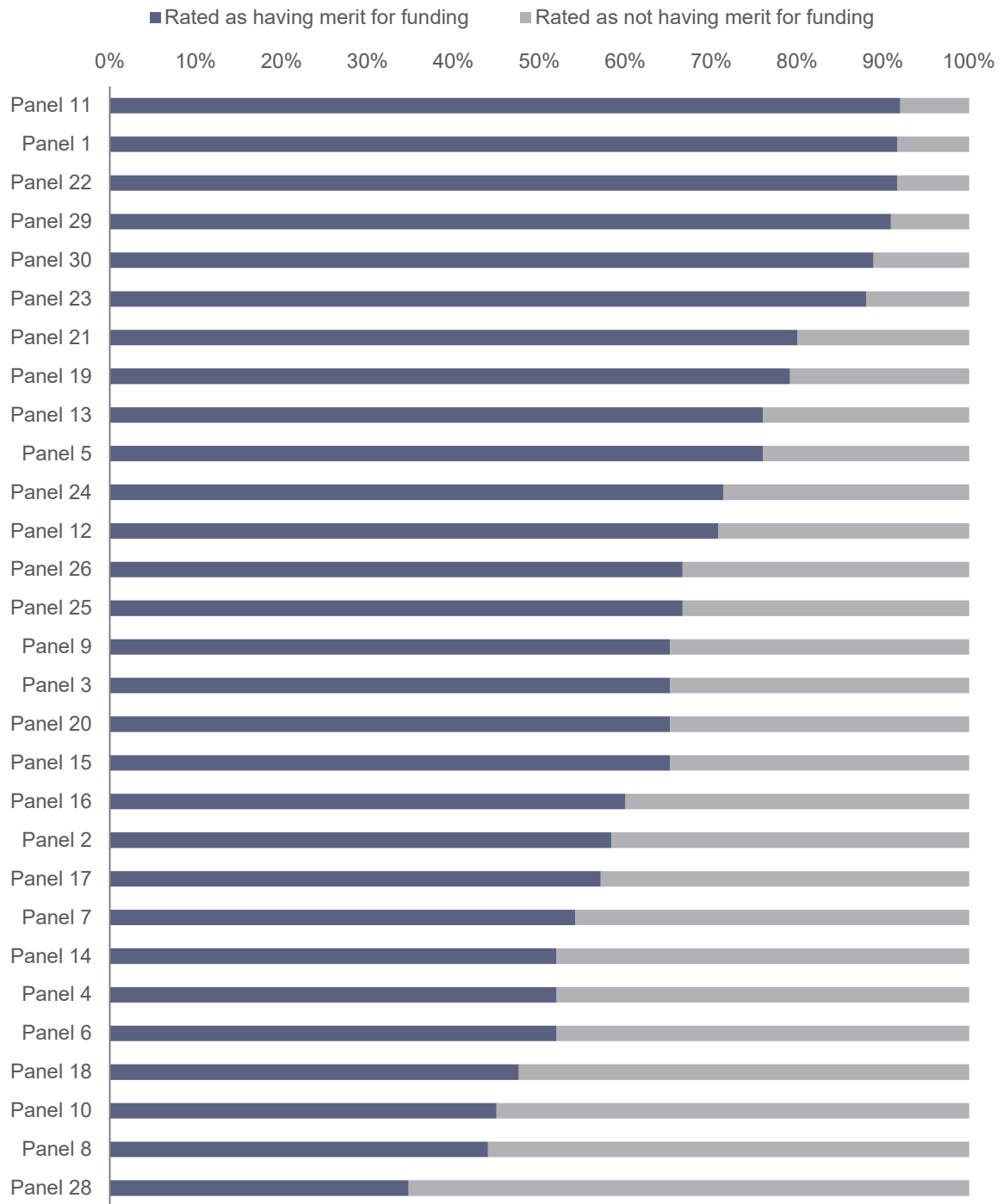
- allowing extensions to the closing date for ROIs
- providing information to councils about the number of ROIs from other organisations within their LGA
- changing the 'lead applicant' from a council to a community organisation, after the council decided not to proceed with an application
- councils switching projects between the competitive round and the local government (non-competitive) round.

Contracts for the probity services for the program had a combined cost of approximately \$330,000.

There was significant variation in the scores and recommendations from assessment panels

The average scores given to projects, and the proportion of recommended projects from each panel, varied significantly across the 29 assessment panels, as shown in Exhibit 11. The four assessment panels shown at the top of the chart each rated more than 90% of the projects they assessed as having merit for funding. By contrast, the four shown at the bottom the chart rated fewer than 50% as having merit for funding.

Exhibit 11: Variation in proportion of projects rated as having merit, community project grants - competitive round, by assessment panel



Source: Premier's Department data (unaudited).

The panels assessed projects that were grouped by the areas of focus for the program, which could explain some of the variation in scoring. It is also possible that some panels received a higher number of lower quality applications than others. However, there were considerable differences between panels that assessed the same category of projects. For example, assessment panels one and ten both reviewed projects in the 'Quality Green and Open Spaces' category. The average score for panel 10 (26.4/45) was much lower than the average score for panel 1 (34.1/45).

The large number of assessment panels used (29 panels with a total of 84 NSW Government agency staff involved) and short timelines for completing the assessments increased the risk of inconsistent panel assessments. The assessment criteria for the program were qualitative and required panel members to make subjective judgements, particularly for the criteria relating to "liveability" and the "transformational" nature of the projects. This may also have contributed to inconsistent interpretations and scoring between the panels.

The Premier's Department did not review the consistency of the scoring of projects across assessment panels before they progressed to the next stage of assessment. During the audit, staff from the Premier's Department advised that this was because there was a large number of applications and short timelines for completing the assessments. This means that some projects that were assessed by panels that gave lower scores overall may have been judged more harshly compared to those that were assessed by other panels. The Premier's Department's quality assurance methods included:

- selecting panel staff with a range of relevant professional experience
- conducting induction sessions for all panel members
- having a probity advisor attend each panel meeting.

One project was assessed both in the community project grants competitive round and the local government allocation rounds. This happened because one council elected to transfer a project to replace an application that had been unsuccessful in the local government round. The same project application was presented to both panels and the assessment criteria were the same for both rounds. However, the panel in the competitive round gave the application a score of 40 out of 45, which was six points higher than the panel that assessed it in the local government allocation round.

External advice on the 'deliverability' and 'viability' of projects was not consistent

The Premier's Department engaged a consultant to provide advice to panels on the 'deliverability' assessment criteria. It engaged different consultants to provide advice on the 'Value for Money' and 'Viability' assessment criteria. The Premier's Department advised that it provided the consultants with standard forms to support consistency in the assessments and met with the consultants to discuss progress.

The work commissioned to assess 'deliverability' (i.e., the capacity of the applicant to deliver the project being proposed) did not produce consistent advice to support decision making. For example, two staff members assessed the same council (Penrith) as having:

- 'strong capacity' to deliver a \$106.7 million project (Indoor Multi-Sports Stadium)
- 'minimal capacity' to deliver a \$1.9 million project (Grey Gums Oval Amenity Building Upgrades and Floodlights).

Similar issues are evident in the assessments of financial viability. For example, one assessment identified 'moderate financial health concerns' at a council (Liverpool) for a \$2.2 million project (Macquarie Mall Revitalisation). Other assessments of projects submitted by the same council, but conducted by different reviewer, identified 'few financial health concerns' at the organisation. The projects assessed by the latter reviewer were all higher value, with the largest project requesting \$53.4 million.

Premier's Department staff did not assess the quality or consistency of the advice provided by the external providers on these areas. There was a high risk of inconsistency in the assessments because they had been distributed among multiple organisations, but controls were not in place to identify or address these issues. As noted above, staff from the Premier's Department advised that this was because there was a large number of applications and short timelines for completing the assessments.

Some assessment panels appeared to disagree with or disregard the advice from the consultants. For example:

- Twenty-two projects were assessed as having merit (without funding conditions) after receiving advice that the project demonstrated minimal value for money.
- Six projects were assessed as having merit (without funding conditions) when the external advice stated that there was insufficient evidence to make an assessment, or there were 'significant financial health concerns'.
- One assessment panel report noted disagreements with the consultant's assessment of the need to changes to project budgets, including contingency and budget cost escalations.

Premier's Department staff did not check whether assessment panels had considered the external advice on the 'viability', 'deliverability' or 'value for money' in a consistent manner.

The external advice provided by the three consultants used cost a total of approximately \$1.75 million.

External assessments of 'deliverability' did not consider all relevant factors

Assessment of the 'deliverability' of projects was done on an individual project basis without reference to the number or size of other projects submitted by the same applicant. For example, one council (Parramatta) submitted 38 projects with a total value of \$616 million. Eleven different assessment panels reviewed the project applications from this council. Having different assessment panels review only a subset of projects risked providing an overly optimistic assessment of the capacity to both successfully deliver and fund ongoing costs of multiple applications. It is also unclear whether these assessments considered the existing capital works plans of the councils that were making applications for the program.

Councils were awarded 78.5% of funding in the community projects competitive round. When combined with the local government projects round, councils are responsible for delivering more than \$1.6 billion in projects that have been funded through WestInvest. Councils also have existing capital works programs that in some cases include extensive disaster recovery work and work related to other commitments such as the Western Sydney City Deal. There is a risk that some councils will be overloaded and that existing issues in the markets supporting infrastructure delivery will be exacerbated.

Some councils received total funding amounts that exceed their typical annual capital works budgets significantly. These councils will need to quickly increase their project management capability to facilitate a significant increase in their capital works programs and must do this in challenging market conditions that have increased the price of labour and goods. For example,

- Blue Mountains Council received \$62.4 million in the community competitive round and \$22.6 million in Local Government Allocation round. Its annual report for 2021–22 notes that its total capital works program for that year was valued at \$22 million. This is around one quarter of the total infrastructure project funding it received through WestInvest.
- Burwood Council received \$76.6 million in the community competitive round and \$20.7 million in the Local Government Allocation round. This is almost five times the value of its \$19.3 million capital works program in 2021–22.

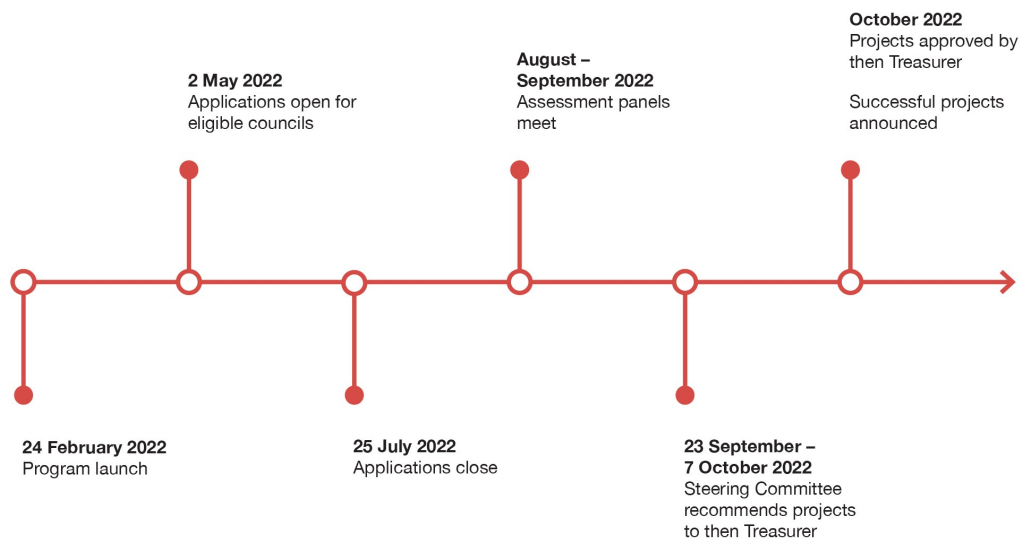
The Premier's Department identified that providing individual councils with funding for multiple projects could increase risks to the successful delivery of the projects. The Premier's Department briefed the WestInvest steering committee on this issue and recommended that funding amounts for some projects be increased to provide additional contingency for potential cost increases.

5. Local government project grants

The \$400 million local government projects round was administered as a non-competitive grant round that was only open to the 15 eligible councils. Each council was allocated a portion of the \$400 million funding via a formula that provided a base allocation and an additional amount based on the population of each LGA. Each council received between \$21 million and \$35 million.

Applications for funding were submitted to the Premier's Department for assessment. Proposed projects were required to be eligible for the program and be rated as having merit against the published program criteria, which were the same as those for the competitive round. Exhibit 12 shows a timeline of key dates for the Local government projects competitive round.

Exhibit 12: Timeline for the community project grants - local government allocation



Source: Audit Office analysis of Premier's Department documents.

A total of 74 projects across the 15 eligible councils were approved for funding through this round.

The assessment process and funding decisions for the local government projects round complied with NSW government guidelines and the assessment and probity plans

The then Treasurer approved all projects recommended by the WestInvest steering committee. All projects that were recommended for funding had been assessed using the same process and had been rated by an assessment panel as eligible and having merit for funding.

The inconsistency in the panel scoring and the external advice noted above in relation to the community competitive round was also evident in the local government projects round. However, this was less significant for the local government projects round because it was a non-competitive process, which meant that differences in the scores had less impact on funding decisions.

Projects funded through the local government projects round received lower ratings compared to successful projects in the competitive round

The need to fully expend the allocated funding on each council, rather than allocating funding to the projects that received the highest merit assessments, meant that many projects with lower scores from the panel assessment received funding compared to the community projects competitive round. Some councils may have spent less time completing applications for the local government round because it was not a competitive round. This resulted in:

- 37 projects were funded that were below the cut off score for projects funded in the competitive round. The scores for these projects were all between 31 and 35
- The average score of the 74 successful projects in the local government projects round was 35 out of 45 compared to an average score of 38 out of 45 for the 118 successful projects in the community competitive round .
- 12 of the 15 councils received funding for projects through the local government projects round that scored lower than projects they had submitted in the competitive round that were not funded.

Section two

Appendices

Appendix one – Responses from audited agencies

Response from Premier's department

OFFICIAL

Premier's Department



Ref: A5920469
13 February 2024

Margaret Crawford PSM
Auditor-General for New South Wales
mail@audit.nsw.gov.au

Re: Response to WestInvest performance audit

Dear Ms Crawford,

Thank you for providing the Premier's Department with the final performance audit for the WestInvest Program and for the opportunity to respond.

I am pleased that the audit report acknowledges that the role of the Premier's Department in the administration of the program was conducted effectively, and focussed on probity and fairness, including the design of the guidelines, assessment process, and stakeholder engagement, particularly noting the scale of the program, complexity, and significantly tight timeframes.

I fully support the process of ongoing review and evaluation of grant activities across NSW grants programs to drive continued improvement and uphold the public sector values of integrity, trust, accountability and service.

The WestInvest Program was a complex and challenging grant program and so the audit findings from this will provide useful learnings for all agencies designing and administering grant programs.

The Premier's Department acknowledges both the recommendations made by the Audit Office.

In regard to recommendation 1 of the report, I note that, in line with constitutional and Cabinet conventions, Ministers bring submissions to Cabinet, not their departments or agencies. Agencies are given an opportunity to provide advice on Cabinet submissions, and that advice is attributed to the agency in accordance with the existing process as set out in the NSW Cabinet Practice Manual.

In regard to recommendation 2, the Premier's Department is committed to best practice in grants administration through adherence to the Grants Administration Guide (Guide). I note that the issues identified in the recommendation are addressed in the Guide through mandatory requirements and guidance.

The Premier's Department is committed to working with The Cabinet Office to ensure ongoing improvement in grants administration practices in the NSW public sector.

Sincerely,

A handwritten signature in black ink, appearing to read "Simon Draper".

Simon Draper
Secretary

OFFICIAL

52 Martin Place Sydney NSW 2000
GPO Box 5341 Sydney NSW 2001
ABN 34 945 244 274

02 9228 5555
premiersdepartment.nsw.gov.au

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Response from NSW Treasury



Treasury

Ms Margaret Crawford
NSW Auditor-General
NSW Audit Office
GPO Box 12
SYDNEY NSW 2001

Dear Ms Crawford,

Performance Audit – WestInvest Program Final Report

Thank you for the opportunity to respond to the Performance Audit Report on WestInvest.

NSW Treasury notes the final report and its recommendations.

WestInvest was a very large and challenging project for NSW Treasury to manage in collaboration with the then Department of Premier and Cabinet.

Thank you for recognising the work of the staff of NSW Treasury and the Premier's Department to prepare guidelines and assess the eligibility and merits of a very large number of applications in tight timeframes.

NSW Treasury staff have appreciated the opportunity to share their insights and contribute to this audit of the integrity of the design and administration of the WestInvest program.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'M. Coutts-Trotter'.

Michael Coutts-Trotter
Secretary, NSW Treasury

22 February 2024

Appendix two – About the audit

Audit objective

This audit assessed the integrity of the design and administration of the WestInvest program.

Audit criteria

We addressed the audit objective by examining:

1. the design of the WestInvest program
2. the award of funding through the WestInvest program.

Audit scope

In assessing the criteria, we examined:

1. the design of the WestInvest program, including its purpose, objectives, and structure
2. assessment processes and funding advice for the 'community project grants – competitive round' and the 'community project grants – local government allocation' rounds
3. funding advice for the 'NSW government projects' round.

Audit exclusions

The audit did not examine:

- the development or administration of project funding deeds
- the project management or delivery of funded projects.

The audit did not question the merits of policy objectives of the NSW Government, as defined in the *Government Sector Audit Act*.

Audit approach

Our procedures included:

1. interviewing staff from the Premier's Department involved in the design and administration of the 'community project grants – competitive round' and 'community project grants – local government allocation' rounds of the program
2. interviewing representatives from assessment panels and the 'program alignment panel'
3. interviewing staff from Treasury involved in the design and administration of the NSW government projects round of the program
4. Examining documents including:
 - a) program guidelines
 - b) probity plans, probity advice and probity reports
 - c) briefings to Ministers and department executives on the design of the program (including Cabinet submissions and supporting documents)
 - d) agendas and minutes from meetings between Ministers/Premier and heads of the Premier's Department (or former DPC), Treasury, and Infrastructure NSW on the topic of WestInvest
 - e) electronic communication relating to the origin and design of the WestInvest program (where information is not documented in formal briefings, etc.)
 - f) materials used for consultation with potential applicants.
5. Analysing data from the grant application, assessment and approval processes, including documentation of:

- a) processes used for assessing eligibility
 - b) assessment panel processes
 - c) 'program alignment panel' and steering committee processes
 - d) Ministerial approval processes.
6. Where relevant, also examining:
- a) documentation from other stakeholders obtained throughout the audit such as research and studies, statistical data and analysis
 - b) information from other jurisdictions for comparison.

The audit approach was complemented by quality assurance processes within the Audit Office to ensure compliance with professional standards.

Audit methodology

Our performance audit methodology is designed to satisfy Australian Auditing Standard ASAE 3500 Performance Engagements and other professional standards. The standards require the audit team to comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance and draw a conclusion on the audit objective. Our processes have also been designed to comply with requirements specified in the *Government Sector Audit Act 1983* and the *Local Government Act 1993*.

Acknowledgements

We gratefully acknowledge the cooperation and assistance provided by staff of the Premier's Department, NSW Treasury and the staff from the 15 Councils we spoke with as part of the audit.

Audit cost

The estimated cost of this audit, including staff costs and overheads, is \$270,000.

Appendix three – Performance auditing

What are performance audits?

Performance audits assess whether the activities of State or local government entities are being carried out effectively, economically, efficiently and in compliance with relevant laws.

The activities examined by a performance audit may include a government program, all or part of an audited entity, or more than one entity. They can also consider particular issues which affect the whole public sector and/or the whole local government sector. They cannot question the merits of government policy objectives.

The Auditor-General's mandate to undertake audits is set out in the *Government Sector Audit Act 1983* for state government entities, and in the *Local Government Act 1993* for local government entities. This mandate includes audit of non-government sector entities where these entities have received money or other resources, (whether directly or indirectly) from or on behalf of a government entity for a particular purpose (follow-the-dollar).

Why do we conduct performance audits?

Performance audits provide independent assurance to the NSW Parliament and the public.

Through their recommendations, performance audits seek to improve the value for money the community receives from government services.

Performance audits are selected at the discretion of the Auditor-General who seeks input from parliamentarians, State and local government entities, other interested stakeholders and Audit Office research.

How are performance audits selected?

When selecting and scoping topics, we aim to choose topics that reflect the interests of parliament in holding the government to account. Performance audits are selected at the discretion of the Auditor-General based on our own research, suggestions from the public, and consultation with parliamentarians, agency heads and key government stakeholders. Our three-year performance audit program is published on the website and is reviewed annually to ensure it continues to address significant issues of interest to parliament, aligns with government priorities, and reflects contemporary thinking on public sector management. Our program is sufficiently flexible to allow us to respond readily to any emerging issues.

What happens during the phases of a performance audit?

Performance audits have three key phases: planning, fieldwork and report writing.

During the planning phase, the audit team develops an understanding of the audit topic and responsible entities and defines the objective and scope of the audit.

The planning phase also identifies the audit criteria. These are standards of performance against which the audited entity, program or activities are assessed. Criteria may be based on relevant legislation, internal policies and procedures, industry standards, best practice, government targets, benchmarks or published guidelines.

During the fieldwork phase, audit teams will require access to books, records, or any documentation that are deemed necessary in the conduct of the audit, including confidential information which is either Cabinet information within the meaning of the *Government Information (Public Access) Act 2009*, or information that could be subject to a claim of privilege by the State or a public official in a court of law. Confidential information will not be disclosed, unless authorised by the Auditor-General.

At the completion of fieldwork, the audit team meets with management representatives to discuss all significant matters arising out of the audit. Following this, a draft performance audit report is prepared.

The audit team then meets with management representatives to check that facts presented in the draft report are accurate and to seek input in developing practical recommendations on areas of improvement.

A final report is then provided to the accountable authority of the audited entity(ies) who will be invited to formally respond to the report. If the audit includes a follow-the-dollar component, the final report will also be provided to the governing body of the relevant entity. The report presented to the NSW Parliament includes any response from the accountable authority of the audited entity. The relevant Minister and the Treasurer are also provided with a copy of the final report for State Government entities. For local government entities, the Secretary of the Department of Planning and Environment, the Minister for Local Government and other responsible Ministers will also be provided with a copy of the report. In performance audits that involve multiple entities, there may be responses from more than one audited entity or from a nominated coordinating entity.

Who checks to see if recommendations have been implemented?

After the report is presented to the NSW Parliament, it is usual for the entity's Audit and Risk Committee/Audit Risk and Improvement Committee to monitor progress with the implementation of recommendations.

In addition, it is the practice of NSW Parliament's Public Accounts Committee to conduct reviews or hold inquiries into matters raised in performance audit reports. The reviews and inquiries are usually held 12 months after the report received by the NSW Parliament. These reports are available on the NSW Parliament website.

Who audits the auditors?

Our performance audits are subject to internal and external quality reviews against relevant Australian standards.

The Public Accounts Committee appoints an independent reviewer to report on compliance with auditing practices and standards every four years. The reviewer's report is presented to the NSW Parliament and available on its website.

Periodic peer reviews by other Audit Offices test our activities against relevant standards and better practice.

Each audit is subject to internal review prior to its release.

Who pays for performance audits?

No fee is charged to entities for performance audits. Our performance audit services are funded by the NSW Parliament.

Further information and copies of reports

For further information, including copies of performance audit reports and a list of audits currently in-progress, please see our website www.audit.nsw.gov.au or contact us on 9275 7100.

OUR VISION

Our insights inform and challenge government to improve outcomes for citizens.

OUR PURPOSE

To help Parliament hold government accountable for its use of public resources.

OUR VALUES

Pride in purpose
Curious and open-minded
Valuing people
Contagious integrity
Courage (even when it's uncomfortable)

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