



AUDITOR GENERAL'S REPORT

PERFORMANCE EXAMINATION

Administration of Protection of Old Growth Forest Policy Funding Programs

Report 6 – August 2005



AUDITOR GENERAL for Western Australia

Serving the Public Interest



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Serving the Public Interest

**THE SPEAKER
LEGISLATIVE ASSEMBLY**

**THE PRESIDENT
LEGISLATIVE COUNCIL**

**PERFORMANCE EXAMINATION – ADMINISTRATION OF PROTECTION OF OLD GROWTH
FOREST POLICY FUNDING PROGRAMS**

This report has been prepared consequent to an examination conducted under section 80 of the *Financial Administration and Audit Act 1985* for submission to Parliament under the provisions of section 95 of the Act.

Performance Examinations are an integral part of the overall Performance Auditing program and seek to provide Parliament with assessments of the effectiveness and efficiency of public sector programs and activities thereby identifying opportunities for improved performance.

The information provided through this approach will, I am sure, assist Parliament in better evaluating agency performance and enhance Parliamentary decision-making to the benefit of all Western Australians.

A handwritten signature in black ink, appearing to read 'D D R Pearson'.

D D R PEARSON
AUDITOR GENERAL
24 August 2005

Contents

| | |
|---|-----------|
| Auditor General’s Overview | 4 |
| Executive Summary | 5 |
| Summary of Key Findings | 5 |
| Introduction | 7 |
| Business Exit Assistance | 9 |
| Workers Assistance Program | 11 |
| Examination Approach | 12 |
| Business Exit Assistance | 13 |
| Findings | 13 |
| Development of Business Exit Assistance Program | 13 |
| BEA was not based on reliable information or consistent assessments | 14 |
| Financial information did not meet Program Guidelines | 15 |
| Anomalies in BEA assessments were not identified | 17 |
| Appeals process was not applied on a consistent basis | 19 |
| Processing of applications was protracted | 21 |
| Eligibility criteria did not fully reflect Government policy | 22 |
| Workers Assistance Program | 24 |
| Finding | 24 |
| Background | 24 |
| Management of Program Changes | 25 |
| Measurement of Outcomes | 27 |
| Payments and Cost | 30 |

Auditor General's Overview

Western Australians rely on public sector agencies to implement Government policies that sometimes have sudden and far reaching impacts on their community.

The Government's 'Protection of Old Growth Forests' Policy is one such policy. It included major reductions in the native timber industry workforce and in the number of sawmillers, harvesters and associated businesses.

The Departments of Industry and Resources (DOIR), and Education and Training (DET) implemented two key funding programs to give effect to the Policy. DOIR had responsibility for managing a program of distributing \$74 million in assistance to businesses exiting the native timber industry (the BEA Program) and DET managed the \$27.3 million Workers Assistance Program (WAP) to provide workers with redundancy top up payments and assistance for training and obtaining new employment.

In essence, DOIR and DET were responsible for facilitating equitable access to Program assistance and ensuring recipients were entitled to the level of assistance paid even though there was limited notice and industry pressure for action.

While WAP was satisfactorily administered overall, BEA was not.

There were major shortcomings in the BEA process and documentation. In consequence the level of assurance Parliament and the community normally expects when public funds are spent is not available. In particular, there is inadequate assurance that BEA has been allocated according to the Program Guidelines and that consistency and fairness was achieved.

The clear lesson is that particular attention is required to make sure that guidelines adopted are relevant and equally important they are consistently applied. While it is now problematic for DOIR to remedy the situation, it is important that such shortcomings be avoided in future.

Executive Summary

In February 2001, the Government announced its decision to immediately cease logging in 99 per cent of Western Australia's remaining old growth forests, as part of its 'Protection of Old Growth Forests' Policy. To effect this policy, a number of agencies were given responsibility for implementing a package of programs budgeted to cost \$161 million.

This examination reviewed the implementation of two of the largest programs:

- The Business Exit Assistance (BEA) Program is designed to provide 'reasonable financial assistance to help certain businesses to completely or partially leave' the native forest timber industry. The Program has a budget of \$74 million and is administered by the Department of Industry and Resources (DOIR).
- The Workers Assistance Program (WAP) provides workers retrenched from the native forest timber industry with redundancy top up payments and assistance with training and obtaining new employment. The Program has a budget of \$27.3 million and is administered by the Department of Education and Training (DET).

Both DOIR and DET moved to implement these Programs expeditiously, though BEA Program Guidelines were not approved until November 2001. In the interim, some 89 businesses had already applied for BEA. This backlog of applications was then processed in an environment where both businesses and retrenched workers were seeking speedy assistance.

Summary of Key Findings

Over 100 businesses and 700 workers have so far been assisted in leaving the native forest timber industry in accordance with BEA and WAP objectives.

The examination found that because of shortcomings in processes and documentation, reasonable assurance cannot be given that BEA applications were assessed consistent with Program Guidelines and that they met an acceptable standard of evidence to support the validity of payments made. In particular:

- financial information provided by applicants to support BEA generally did not meet BEA Program Guidelines which provided that third party assured information be used

Executive Summary ... continued

- the level of documentation available was not sufficient to demonstrate that applications were assessed on a consistent basis
- the appeals process was not applied on a consistent basis.

The timeliness of processing BEA applications varied widely and was protracted, with 47 per cent taking longer than 12 months to process.

The examination found that overall, the administration of WAP was satisfactory, with only minor weaknesses found in the management of Program changes and the measurement of outcomes. There is reasonable assurance that assistance has been paid consistent with Program objectives.

Introduction

In response to community concerns about the depletion of over 90 per cent of Western Australia's old-growth forests, the Government committed itself to a policy of immediately ceasing logging in around 99 per cent of the remaining old-growth forests.

In May 2001, the Government announced an integrated funding package to:

- secure a high employment, high value adding, sustainable timber industry
- whilst protecting the interests of those who may be negatively affected by the 'Protection of Old Growth Forests' Policy.

The funding package comprised 12 programs or 'elements' to be administered by a range of government agencies. Table 1 sets out these 'elements'.

The package was originally estimated to cost more than \$120 million over four years. Since May 2001, the budget has increased to \$161 million. (This figure does not include an estimated \$14.4 million per annum reduction in royalties resulting from changes to the volume of native forest timber that can be harvested under the Forest Management Plan 2004-2013).

This examination focused on assistance provided to date under two of the larger programs:

- Business Exit Assistance
- Workers Assistance Program.

Introduction ... continued

| ELEMENT | DESCRIPTION | AGENCY | BUDGET (\$'000) |
|-------------------------------------|---|--|-----------------|
| 1. Business Exit Assistance | To compensate sawmills and associated industries leaving the industry as a result of the reduced timber allocation | Department of Industry and Resources | 74 000 |
| 2. Industry Development Assistance | To enable certain mills to move into higher value adding use of timber, such as furniture making, and attract non-timber industry to the affected areas | Department of Industry and Resources | 28 500 |
| 3. Investment Attraction | | | |
| 4. Workers Assistance | To assist workers made redundant as a result of the policy, with redundancy payments, training assistance, wage subsidies, relocation assistance, mortgage and rent assistance, and job search assistance | Department of Education and Training | 27 300 |
| 5. Family and | To provide counselling and community development measures to assist families and communities adversely affected by the policy | Department for Community Development | 910 |
| 6. Community Development Assistance | | South West Development Commission | 1 165 |
| 7. Relocation Compensation | To pay relocation compensation to logging contractors | Forest Products Commission | 70 |
| 8. Integrated Service Centre | To establish offices in Manjimup and Bunbury to assist with policy implementation | Department of Industry and Resources | 2 250 |
| 9. Project Director | Appointment of Project Director | Department of Conservation and Land Management | 1 000 |
| 10. National Parks | To create new National Parks and Reserves, reinstatement of a number of reserves and the employment of up to 130 mill workers | Department of Conservation and Land Management | 25 016 |
| 11. Communication Plan | To prepare information kits, briefing programs and newspaper inserts to ensure a positive consistent message is delivered promptly and accurately | Department of Conservation and Land Management | 225 |
| 12. Furniture Promotion Fund | Interstate and overseas promotion of Western Australian timber furniture | Department of Industry and Resources | 1 000 |
| TOTAL | | | 161 436 |

Table 1: 'Elements' of the 'Protection of Old Growth Forests' Policy Funding Package at 31 December 2004

Source: Department of Industry and Resources

Business Exit Assistance

Figure 1 outlines the reporting and advisory framework relating to the administration of the Business Exit Assistance (BEA) Program. BEA applications are processed by the Department of Industry and Resources (DOIR) with advice sought from the Forest Products Commission (FPC) on the applicant's eligibility. If considered prima facie eligible by the FPC, the application is referred to an independent assessor. If the FPC is unable to determine eligibility, the application is considered by the Timber Industry Assistance Review Committee. The Committee is comprised of representatives from the Forest Policy Implementation Office, Forest Industries Federation (WA) Inc, FPC, and the Department of Education and Training, and the Department of Industry and Resources. The Department of Treasury and Finance was also a member of this Committee until they withdrew in July 2002.

The independent assessors, comprising accounting firms and valuers, are required to operate at arm's length from both Government and the applicant. The assessors are responsible for considering eligibility and recommending the amount of BEA to be paid. The assessors' reports are reviewed by DOIR and are submitted to the Committee. Provision exists for applicants to appeal the decisions of the Committee.

The Committee considers the assessors' reports and determines if the applicant should be invited to apply for BEA. If the invitation is accepted, approval from the Minister for State Development is sought to make payment.

Under Program Guidelines, the BEA amount represents the value of the applicant's business as a 'going concern' before adverse financial consequences were caused by the operation of the May 1999 Regional Forest Agreement and the current policy. The amount is based on an estimate of future profits, capitalised at a multiple (rate of return) that reflects the risks of the business and the stream of income that it generates. In addition to BEA, applicants also receive:

- compensation for the expected loss on the sale of their assets, with reference to auction values
- reimbursement of accountancy costs, redundancy payments to workers and costs of site rectification.

Introduction ... continued

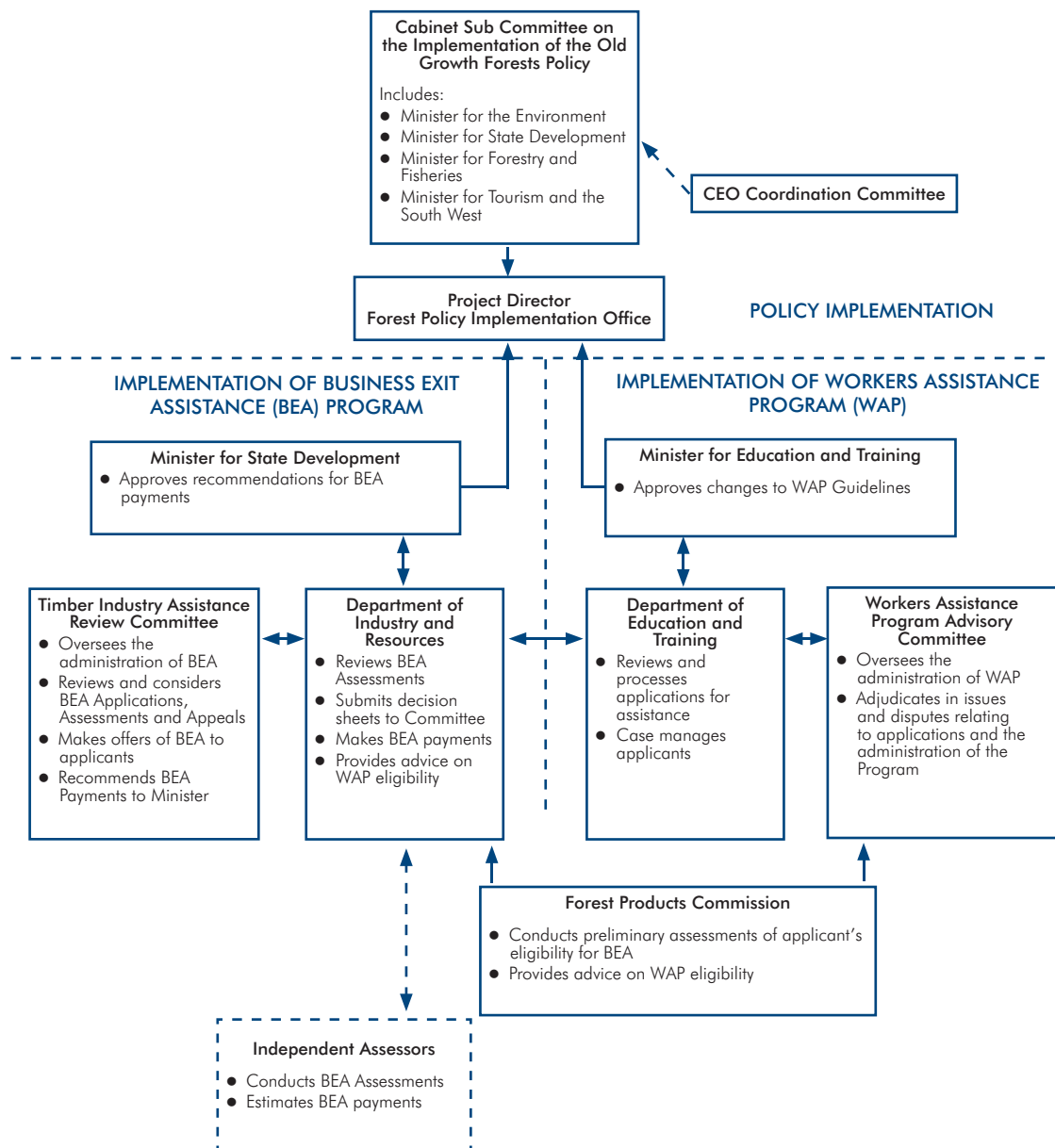


Figure 1: Reporting and Advisory Framework for BEA and WAP Programs at 31 December 2004

Source: Office of the Auditor General

Workers Assistance Program

The Workers Assistance Program (WAP) is administered by the Department of Education and Training (DET). Workers made redundant by the closure or downsizing of businesses as a result of the policy are entitled to compensation in the form of a top up to the redundancy payments received from their employers. They are also entitled to financial assistance for undertaking training, relocating to get a new job, travelling to job interviews, paying mortgages and rent. In addition, wage subsidy incentives are available to encourage new employers to engage redundant workers. At 31 December 2004, the budget for WAP is \$27.3 million (Figure 1 outlines the reporting and advisory framework relating to the administration of the WAP Program).

Table 2 provides details of BEA and WAP payments at 31 December 2004.

| | BUSINESS EXIT ASSISTANCE | WORKERS ASSISTANCE |
|---|----------------------------|--------------------|
| Number of Applicants Assisted | 105 | 709 |
| Total Payments | \$51 263 303 | \$16 195 789 |
| Average Payment | \$488 222 | \$22 843 |
| Range of Payments | \$13 538 to \$4.38 million | \$285 to \$80 351 |
| Number of Applicants Yet to be Determined | 4 | 56 |

Table 2: Status of BEA and WAP Payments at 31 December 2004

Source: Departments of Industry and Resources, and Education and Training

Examination Approach

We used the following criteria to assess BEA and WAP:

| CRITERIA | OBJECTIVE |
|--------------|--|
| Validity | Payments have been correctly calculated, are supported by appropriate evidence, and are approved by the responsible authority. |
| Consistency | Applications are assessed in accordance with Program Guidelines. |
| Transparency | Program Guidelines are made clear to applicants. |

The criteria of validity, consistency and transparency are particularly important to show that:

- all eligible applicants have access to assistance
- all applicants are treated equitably
- payments are correct and comply with the *Financial Administration and Audit Act 1985*.

The examination reviewed 30 approved BEA payments (29 per cent of those assisted at 31 December 2004) totalling \$30 million (58 per cent of payments to 31 December 2004). These payments were selected to achieve coverage of businesses of varying size across the range of different industries (including such businesses as sawmills, harvesters, and road transport companies).

Payments to 32 workers (five per cent of those assisted) were examined under WAP, including the 10 workers who received the largest payments and 22 workers made redundant by some of the businesses examined in our sample of BEA.

The examination also assessed the progress achieved to 31 December 2004 in administering BEA and WAP.

Business Exit Assistance

Findings

Shortcomings in process and documentation means reasonable assurance cannot be given that BEA applications were assessed consistent with Program Guidelines and met an acceptable standard of evidence to support the validity of payments made. In particular:

- *financial information provided by applicants to support BEA generally did not meet BEA Program Guidelines which provided that third party assured information be used*
- *the level of documentation available was not sufficient to demonstrate that applications were assessed on a consistent basis*
- *the appeals process was not applied on a consistent basis.*

The timeliness of processing BEA applications varied widely and was protracted, with 47 per cent taking longer than 12 months to process.

Development of the Business Exit Assistance Program

The Business Exit Assistance (BEA) Program was first established under a joint State and Commonwealth arrangement called the Western Australian Forest Industry Structural Adjustment Program (WA-FISAP). This followed the execution of the Regional Forest Agreement (RFA) in May 1999. Program guidelines were approved by Cabinet in July 2000. Thirteen businesses applied for BEA under the RFA.

In February 2001, the announcement of the 'Protection of Old Growth Forests' Policy resulted in an immediate stop to logging in 99 per cent of the remaining old growth forests.

A budget of \$28 million for BEA was announced by the Government in May 2001. At that stage, there was uncertainty about the number of businesses that would be affected by the policy and the magnitude of the assistance to be provided. This was because social and economic impacts of the policy were not assessed until August 2002 and final timber yields were not gazetted until 19 December 2003.

The Commonwealth Government, which was part of the WA-FISAP BEA decision-making process, withdrew its involvement with the State, disputing the sustainability of the new policy. DOIR advised that the State Government made a decision to

continue to process applications until the new guidelines reflecting the 'Protection of Old Growth Forests' Policy were approved. When revised Program Guidelines were approved on 21 November 2001, DOIR had already received 89 applications for BEA using the former FISAP BEA RFA forms. This represented around 59 per cent of all applications received.

BEA applications were submitted quickly because the native forest timber industry was being encouraged to apply for BEA sooner rather than later. This was to ensure that existing timber contracts could be cancelled before the cessation of logging affected the ability of FPC to honour these contracts, which were not due to expire until 31 December 2003. A cut-off date of 31 December 2002 for all BEA applications was established.

Additional requirements applied to sawmillers, depending on whether they chose to submit a proposal to continue in the industry with a new contract (based on 'indicative' timber yield allocations). Sawmillers that chose to exit the industry had to apply for BEA by 31 December 2001 or penalties (involving reductions to BEA of eight per cent per month beyond this date) would be imposed. Those sawmillers that chose to remain in the industry could still apply for BEA if they failed to obtain a new contract. However, similar penalties would be imposed if they did not apply within 30 days of receiving notification that their proposal was unsuccessful.

The initial BEA Program budget of \$28 million was progressively increased to \$74 million as BEA requirements became clearer. The Program was substantially completed by 30 June 2005.

At 31 December 2004, the Program had cost \$1.3 million to administer. This figure also included the cost of assessing the individual businesses by the appointed assessors. These costs represent 2.5 per cent of the total Program cost to date.

BEA was not based on reliable information or consistent assessments

The determination of the amount of BEA to be paid was dependent on information supplied by the applicant. The information was then used by one of three assessors to assess the value of the applicant's business and calculate the amount of BEA to be paid.

The examination found systemic shortcomings in the determination of BEA in that:

- 27 out of 30 applications (or \$26 million of the \$30 million) reviewed were not supported by audited financial information or certifications as specified in the BEA Program Guidelines
- Significant anomalies in the documentation and assessment of BEA were not identified by DOIR.

These shortcomings are discussed below.

Financial information did not meet Program Guidelines

The Program Guidelines required applicants to provide audited financial statements for three years. Such statements are considered reliable because they had been rigorously examined by a professionally qualified independent third party. If these were not available, then the applicant had to certify that unaudited financial statements were ‘exactly the same as those that formed the basis of the lodgement of the business’ income tax returns for each of those years.’ This alternative draws comfort from the penalties applicable if misleading information is submitted to the Commissioner of Taxation.

Of the 30 BEA applications examined, 27 applications were not supported by audited financial statements. This was because most businesses in the native forest timber industry were privately owned and operated. As such, they do not normally have their financial statements audited. The assessors’ reported that the financial statements used to calculate the level of compensation payable were not audited. It was also evident that these applications were not supported by certifications, the alternative means of achieving a form of third party assurance.

DOIR did not address this threshold inconsistency with the guidelines as part of its oversight of the assessment process.

Efforts were made by the assessors to collect a range of corroborating information through discussions with applicants and their accountants. However, even where additional information was obtained it was from the applicant or an agent of the applicant. For example, DOIR provided statements from two of the three assessors, one of which indicated that where audited financial statements were not available they

Business Exit Assistance ... continued

relied on unaudited financial statements which were accompanied by an independent compilation statement by their accountants and that these were agreed with income tax returns that had been sent to them by the accountants. While this may meet commercial practice, it does not meet the more stringent test of providing acceptable third party corroboration to support expenditure of public moneys.

Audit attempted to obtain some comfort by comparing certain financial ratios. This however disclosed large variations in the net profit positions (compared with sales) and the level of assessed 'goodwill' (intangible assets arising from benefits of good reputation, management, location etc) across like businesses such as sawmills and harvesters (Table 3).

| | SAWMILLS | HARVESTERS |
|---|-----------|------------|
| Net Profit as a proportion of Sales Revenue | 2 to 51% | 9 to 52% |
| Goodwill as a proportion of the value of the business | 37 to 96% | 34 to 90% |

Table 3: Net Profit Positions and the Level of Goodwill across Sawmills and Harvesters

The net profit to sales ratios across sawmills and harvesters varied widely. The level of 'goodwill' also varied, with the value of sawmills assessed as comprising as much as 96 per cent in 'goodwill' and only four per cent in plant and equipment. For most industries, 'the higher the level of goodwill (or 'blue sky') inherent in the asking price, the less probable it is that a willing but not anxious purchaser will pay the price being asked.'

Source: Office of the Auditor General

This disparity in the financial performance across the native forest timber industry reinforced the need for third party assurance of information used to calculate levels of compensation. In the absence of audited financial statements or certifications, it was therefore not possible to reliably conclude whether the level of assistance calculated was appropriate.

Anomalies in BEA assessments were not identified

Audit was unable to confirm whether applications were assessed on a consistent and equitable basis. Although DOIR undertook a degree of monitoring of the assessors to ensure consistency, it did not identify anomalies in and across the assessment reports relating to the manner in which BEA and other costs were calculated by the assessors, as follows:

- **Stock on Hand** – In accordance with instructions from DOIR, assessors were required to exclude ‘stock on hand’ from the assessments, thereby reducing the value of the business and the level of BEA. In 10 of 16 sampled BEA assessments relating to sawmills, it could not be established whether ‘stock on hand’ had been excluded.
- **Partial Exits** – The 30 BEA applications examined included seven businesses partially exiting the industry or businesses where native forest timber activities comprised only part of their operations. DOIR advised that a policy position was adopted whereby these businesses would be compensated for the expected loss on sale of only those assets used in their native forest timber industry operations. The examination found that the assessment reports for four of the seven businesses did not record whether assets had been apportioned. In consequence, it could not be established whether applicants had received the appropriate level of assistance.
- **Valuation of Land and Buildings** – The Program Guidelines also required land and buildings to be valued to establish the amount available, up to a maximum of \$100 000 each, for reimbursement of clean up costs. It was evident that two of the assessors obtained separate professional valuations to establish the value of land and buildings. In respect of the third assessor’s approach, DOIR subsequently advised that the value of land and buildings for these assessments was based on rates notices.

These anomalies and inconsistencies resulted from different approaches to documentation and assessment, by the three assessors. More rigorous oversight of the assessment process would have disclosed that BEA payments were not being calculated consistently and should have resulted in the anomalies being addressed in a timely manner.

In addition to these systemic inconsistencies three notable anomalies in individual assessments were also identified in the 30 BEA applications examined:

- **Valuation of a sawmill not based on a physical inspection** – One applicant received compensation of \$1.1 million for the loss on sale of assets. The amount included compensation of \$450 000 for the expected loss on the sale of a sawmill. Although DOIR advised that departmental officers had previously sighted the sawmill after the BEA application was submitted, the valuer engaged for the assessment was not able to physically inspect the sawmill. It had been decommissioned and put in storage to be sold. The sawmill was instead only valued on the basis of plans and information submitted by the applicant rather than by physical inspection, as performed in all other cases examined. This anomaly was later queried by the Timber Industry Assistance Review Committee, however at that stage the sawmill had already been sold. After due consideration, the Committee recommended that the applicant be fully compensated for the sawmill based on the claimed amount. Audit considers that steps should have been taken to ensure the sawmill was physically inspected by a valuer before it was sold.
- **Eligibility of an applicant was not checked** – An ‘indirect’ business, supplying goods and services to the native forest timber industry and dependent on the industry for its income, received a payment of \$311 683. This business applied for and BEA was approved on the basis that it derived 61 per cent of its income from industry clients, satisfying the ‘usually more than 50 per cent’ requirement in the Guidelines. However, not only was the applicant’s client revenue list not based on audited income figures, it did not include its non-industry clients’ revenue and was not supported by a statement from the applicant’s accountant (as specified in the Guidelines). The client list was not checked for validity by DOIR. We identified that the list included clients outside the native forest timber industry. Once all clients were considered we calculated that only 45 per cent of its stated income was derived from the industry. All other ‘indirect’ businesses examined derived between 50.4 and 100 per cent of income from industry clients. DOIR subsequently advised that this was a once-off case.
- **Information was not ‘representative’ as required by Program Guidelines** – One business received three payments totalling \$4.38 million as compensation for partially leaving the industry as a result of three reductions to its harvesting contracts. The applicant’s first payment was based on audited financial statements

for the years 1998 to 2000 and the last two payments were based on the years 1999 to 2001. The financial statements for 2001, which were unaudited and were not considered ‘representative’ of normal trading operations as required by the Guidelines, showed a 53 per cent increase in net profits compared with the year 2000. This meant that in the second and third assessments (payments), the value of the business was 12 per cent more than the first assessment, resulting in comparatively higher payouts. Appropriate application of the Guidelines would have used only the 1998 to 2000 financial statements, which would have resulted in lowering compensation by \$220 000 to \$4.16 million.

Appeals process was not applied on a consistent basis

The BEA Program Guidelines allowed applicants to appeal decisions at any stage of the process. Applicants were required to submit documentation to support their claims. Appeals were initially considered by DOIR which then put a submission to the Timber Industry Assistance Review Committee for a decision. Of 109 eligible BEA applicants, 47 (or 43 per cent) appealed and 34 (or 79 per cent of) finalised appeals were successful, resulting in an increase of \$4.73 million in BEA payments (Table 4).

| | NUMBER |
|-------------------------------|------------------------------------|
| BEA Applications ¹ | 109 |
| Appeals ¹ | 47 (or 43% of eligible applicants) |
| Appeals upheld (successful) | 34 (79% of appeals finalised) |
| Increase in Payments | \$4.73 million (43%) |

| Reasons for Appeals |
|--|
| <ul style="list-style-type: none"> ● Adjustments to financial information by assessors (37 appeals) ● Valuations of plant and equipment (30) ● Application of BEA Methodology (23) ● Capitalisation rate (14) ● Consideration of additional costs (10) ● Other (3) |
| Note: Most applicants appealed for more than one reason. |

Table 4: Appeals against the Level of BEA Lodged at 31 December 2004

Forty seven (or 43 per cent of) businesses appealed against BEA assessments for a range of reasons.

1. Includes an additional four applications that were subject to appeals and are still under consideration at 31 December 2004. No payments have yet been made in respect of these applications. These figures also do not include applicants that appealed against decisions regarding their initial eligibility for BEA.

Source: Department of Industry and Resources and Office of the Auditor General

Business Exit Assistance ... continued

No separate criteria or guidance was established for use by the Committee in assessing the merit of appeals.

Nineteen successful appeals against valuations of plant and equipment were examined, the area with the highest success rate. This showed that in 10 of the 19 cases, the applicant provided additional relevant information and/or revised valuations were performed by the assessors. These appeared regular and were not reviewed further.

The outcomes of the other nine appeals however were not considered consistent with Program Guidelines and resulted in applicants not being treated equitably.

In these cases, applicants submitted their own alternative valuations or appraisals of plant and equipment. The Committee agreed to take an average of the assessor's valuation and the valuation/appraisal provided by the applicant without recording a rationale. These decisions resulted in increases in BEA totalling \$410 320.

In these cases, no deficiencies were identified in the BEA assessors' original valuations (which were in accordance with Program Guidelines). In addition, in six of these cases, the assessors had been requested to review their valuations. In these cases, the assessors stood by their original valuations and recommended to DOIR that there be no change.

Even more concerning is that in one of these cases a 21 per cent increase in BEA (\$34 000) was approved on an appeal based on a dealer's advice rather than an independent equipment valuer, as required by the Guidelines. In another case, an applicant received an increase of 13 per cent (or \$35 318) after submitting a valuation performed at a more favourable date.

In these cases, Audit considers that taking an average should only have occurred where there was a difference in professional judgement based on common assumptions. In cases where 'appraisals' and 'advice' were submitted or more favourable assumptions were used, averaging was not considered appropriate.

The largest successful appeal was also examined. An applicant originally applied for a full exit from its native forest timber industry operations, which included some loss-making operations. The applicant was offered BEA of \$565 000, based on three years' unaudited financial information. However, the applicant then appealed for a partial exit of only the most profitable operations and submitted their own assessment based on only one year's unaudited financial information. The assessor stated that this

assessment was limited and only ‘indicative’ because of the nature of the assumptions used and the use of only one financial year’s information. The applicant was provided a revised BEA amount of \$1.2 million based on a partial exit. Audit considers that steps should have been taken to ensure that the revised assessment was based on three years of financial information, as specified in the Program Guidelines, and additional work performed to test the assumptions made by the applicant.

Processing of applications was protracted

The timeliness of processing BEA applications ranged from five to 34 months, with 47 per cent taking longer than 12 months to process (Table 5).

Once BEA applications were received by DOIR, it took on average two months for the applications to be deemed eligible. It then took five months on average to conduct BEA assessments (whereas DOIR had contracted assessors to deliver these within six weeks). Finalising the assessments and executing Deeds of Discharge took a further seven months on average.

| Number of Months to Process | Number of Applications |
|-----------------------------|------------------------|
| 6 months or less | 3 |
| 7 to 12 months | 46 |
| 13 to 18 months | 23 |
| 19 to 24 months | 15 |
| More than 2 years | 5 |

Table 5: Time to Process BEA Applications at 31 December 2004

The average number of months taken to process an approved application, from the date received by DOIR to the date of signing a Deed of Discharge, was 14 months.

Note: The table excludes 13 applications submitted in relation to the RFA. These took, on average, 20 months to process, due to the time needed to trial BEA guidelines and delays in negotiations with the Commonwealth Government over funding contributions.

Source: Departments of Industry and Resources and Office of the Auditor General

Business Exit Assistance ... continued

The reasons for delays varied across applications, with DOIR advising that the delays were attributable to:

- Applicants awaiting the outcome of FPC's tender process for new contracts, which were delayed because the 'Forest Management Plan 2004-2013' was not finalised.
- Applicants and/or their accountants not providing information in a timely manner.
- Applicants needing time to make what was an important business and family decision.
- Applicants requesting a delay in finalising the application to complete seasonal activities.

However, DOIR did not actively monitor the time taken to process applications. Though it was difficult to establish whether applicants were adversely affected, DOIR provided 'letters of comfort' on behalf of those applicants where action was being proposed by lending institutions to foreclose or review lending arrangements whilst their applications were being processed.

Eligibility criteria did not fully reflect Government policy

The BEA Program was first established to deal with the impacts of the RFA. The guidelines used were developed to assist only sawmills with log timber contracts affected by the RFA. However, the implementation of the 'Protection of Old Growth Forests' Policy also affected businesses supplying goods and services to the native forest timber industry and dependent on the industry for their income (such as road transport companies, mechanics and engineers).

The Government made provision in the May 2001 budget for these 'indirect' businesses to apply for BEA. The eligibility criteria were not amended to cover these indirect businesses and provide for them to be appropriately assisted (Figure 2 shows the BEA eligibility criteria). Specifically, criterion 3.3 effectively ruled 'indirect businesses' out and should have been withdrawn or amended.

Whilst payments made to 25 'indirect businesses' (out of 105 approved BEA applications at 31 December 2004) were in the spirit of the policy, it is important that eligibility criteria accurately reflects Government policy and program objectives in order to provide clarity for both applicants and assessors.

3. ELIGIBILITY CRITERIA FOR ACCESS TO THE SCHEME:

3.1 Applicants must demonstrate that for at least nine months within the period commencing 1 September 1999 and ending 1 March 2001¹, the business:

(a) directly participated in the native forest timber industry; or

(b) has been directly dependent on that industry and be able to demonstrate that a substantial proportion (usually more than 50 per cent) of its income is, or was, derived from directly supplying goods or services to the industry. A statement from the applicant's accountant supporting the claim that includes a detailed list of the business' client base should be provided.

3.2 If the business is a sawmill, it must currently hold a log timber contract of sale entered into under the *Forest Products Act 2000*, and the business will not be fully effective because of the operation of the Policy.

3.3 The exit of the business will assist in achieving long-term sustainability of the native forest timber industry.

3.4 An application for Business Exit Assistance is lodged at the address set out in item 9 on the appropriate form, on or before **31 December 2002**.

Figure 2: BEA Program – Eligibility Criteria

1. *The BEA Program Guidelines developed for the impacts of the Regional Forest Agreement had the eligibility period “... for at least nine months during 18 months preceding the execution of the Regional Forest Agreement on 4 May 1999 ...”*

Source: Extracted from 'Business Exit Assistance Guidelines' July 2002

Workers Assistance Program

Finding

Overall, the administration of the Workers Assistance Program was satisfactory, with only minor weaknesses found in the management of Program changes and the measurement of outcomes. There is reasonable assurance that assistance has been paid consistent with Program objectives.

Background

The Workers Assistance Program (WAP) commenced in 2001 and has directly assisted 709 workers made redundant by the operation of the Policy to 31 December 2004.

The Program has been managed by the Department of Education and Training (DET) since July 2001 although it was initially developed by the former Department of Productivity and Labour Relations.

At March 2005, DET estimated a further 33 applicants could register for assistance and expected the Program to continue assisting a small number of workers through to 2007.

DET's team consisted of Forest Liaison Officers and support staff that assisted workers and administered applications for financial assistance. DET's Forest Liaison Officers briefed groups of workers likely to become redundant about the Program and distributed information packs. These packs included the Program Guidelines and brochures outlining specific assistance. Workers were also interviewed to assess their likely eligibility for WAP and to establish how WAP could assist workers.

The guidelines were also published on the DET's web site. Following retrenchment, Forest Liaison Officers case managed each applicant for assistance over a two year period. DET wrote to each applicant one month before eligibility for assistance expired reminding applicants of the expiry date. DET continued to contact applicants after their eligibility had expired to monitor the livelihood status and offer advice on other services offered by DET.

A Worker Assistance Advisory Committee was also set up to oversee the management and administration of the Program. The Committee comprised of representatives from the Departments of Education and Training, Consumer and Employment Protection, and Community Development, and the Forest Industries Federation (WA) Inc, Australian Workers Union, office of the Minister for the Environment, Construction Forestry Mining and Energy Union, and Timber Communities Australia.

Management of Program Changes

Over the course of the Program, DET made changes to WAP to better address the needs of applicants. These changes affected the eligibility, access and scope of the assistance offered through the Program.

DET prepared Program Guideline addenda and procedure notes informing the Forest Liaison Officers about the changes. The Officers used the information to update presentations to workers before they were made redundant and update advice provided to applicants in face to face or telephone contacts. DET also prepared brochures about some of the changes (for example, business development and computer purchases) to be provided by Forest Liaison Officers to applicants where the applicants identified that this assistance was of interest to them. However, DET did not update the published guidelines and provide these to applicants.

While it was important that DET ensured that the advice given to applicants and prospective applicants during presentations, interviews and telephone contacts was current it was also important that the Guidelines were kept up to date. This would have improved Program transparency and assured workers of equity of access to assistance.

Applicants relying on the published Guidelines risked not being aware of key changes including the greater eligibility in terms of the period in which claims could be made or that applicants could:

- apply for an extension to the period of eligibility for injury, family sickness and family crises
- claim assistance retrospectively for travel, relocation and mortgage and rent assistance.

Applicants relying on the guidelines may not have been aware of the increased access to rent and mortgage assistance to relieve financial hardship and the broader scope of uses to which assistance became available.

These changes are discussed below.

Access to Rent and Mortgage Assistance

The Guidelines provided for assistance to pay mortgage or rent payments for displaced workers who did not relocate but had not found employment and were facing financial hardship.

DET increased access to this assistance but did not update the Guidelines to make clear that applicants could make a claim:

- if they were employed or self employed so long as household income was less than before they were retrenched
- immediately after retrenchment although DET advised applicants to reserve this entitlement, if possible, in case financial hardship became acute
- for retrospective hardship.

The Guidelines did not define financial hardship. However, DET required applicants to declare that they were in financial hardship by stating their pre and post retrenchment income levels and providing bank statements for mortgage accounts.

The examination identified that this requirement did not provide sufficient demonstration of financial hardship because it did not consider the applicant's expenses or financial benefits derived from other sources, such as the operation of a small business.

Scope of Assistance

The scope for which the flexible training assistance could be applied was broadened in August 2002 to assist in business establishment. The guidelines were not updated although presentations to workers clearly indicated applicants could seek assistance for a business start up or expand an existing small business.

Examples of business assistance, identified by the examination, included payments for

- vehicles, a digital camera and other equipment for starting up a small business
- livestock and buildings for extending existing small businesses
- advertising costs.

The examination also found that DET extended the scope for which assistance was provided for obtaining jobs. The scope of the assistance included a suit, shirt and shoes to attend an interview and tools of employment including secateurs and gloves for use in the wine industry.

Eligibility for Special Redundancy Payments

The examination found that DET's application of provisions dealing with special redundancy top up payments was inconsistent with the Guidelines and effectively represented a change to the Guidelines.

Workers retrenched from companies accepting BEA on the basis of being indirectly involved in the timber industry were entitled to a top up that was capped at 54 weeks compared with 81 weeks for workers retrenched from direct businesses. The difference in amounts was a maximum of \$17 550.

However, the examination identified four cases where DET paid workers retrenched from 'indirect' companies at the higher cap applicable to direct workers where workers had an employment history in the native forest timber industry. The Department advised that these were exceptional and isolated cases and that the payments are consistent with advice from the Workers Assistance Program Advisory Committee.

Updating the published Guidelines would have resolved the inconsistency and removed the potential for ambiguity in the process.

Measurement of Outcomes

The Guidelines identified that the Program objective was to provide financial assistance to eligible workers retrenched as a result of the Government's 'Protection of Old Growth Forests Policy' (Figure 3 shows the WAP objectives). The Guidelines also identified the types of assistance intended for retrenched workers. However, the Guidelines did not clearly establish what the Program intended to achieve.

Workers Assistance Program ... continued

2. OBJECTIVES

2.1 The Western Australian Government is committed to helping timber workers affected by the implementation of the State Government Forest Policy in Western Australia.

2.2 It is intended to provide assistance for:

- (a) eligible native forest hardwood timber industry workers to obtain special top-up redundancy, preparatory and vocational training, and, if required, relocation to new areas in order to get new jobs;
- (b) new employers of eligible former native forest timber industry workers, through wage subsidies; and
- (c) existing employers of native forest timber industry workers to manage the retrenchment programs that assist those workers.

Figure 3: Workers Assistance Program Objectives – extract from the ‘Workers Assistance Program Guidelines’

DET addressed this deficiency by adopting the objective and purpose of supporting and assisting retrenched workers ‘to develop a new livelihood.’

DET defined livelihood as including full and part time jobs, casual and temporary jobs, self employment and contract work. Whilst DET sought to assist applicants to be placed into income generating activities, it also recognised livelihood as including retirement, home duties and temporary situations such as training and illness.

DET monitored the employment and other livelihood status of applicants by contacting applicants at least once in every six weeks and conducting a follow-up of all applicants every three months. Figure 4 shows the livelihood status of applicants at 31 December 2004. Some 79 per cent of applicants had found some employment, three per cent were unemployed and 18 per cent were in training or work experience, retired, not working in paid employment or deceased.

Of the 560 workers who found employment, 358 were in full time employment, 39 were part-time, 23 were in casual/temporary employment and 140 were self-employed.

However, the examination was unable to determine the quality of the outcomes being reported from this monitoring because DET had not compared livelihood status before and after workers were made redundant.

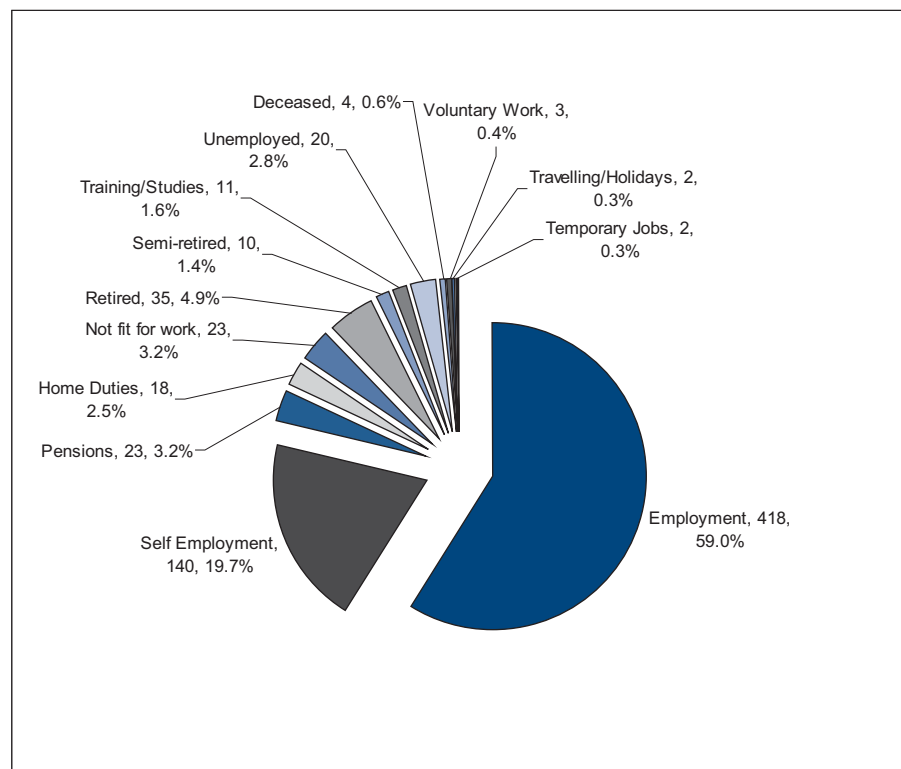


Figure 4: The Employment Status of Applicants at 31 December 2004

The monthly status report is a snapshot of what applicants are doing – it does not indicate the desirability of the employment to applicants or long term outcomes of the Program.

Source: Department of Education and Training

While it is too soon to ascertain whether the Program has been effective in delivering long term livelihood outcomes for applicants, DET has advised that the Cabinet Sub Committee on the Implementation of the ‘Old Growth Forest’ Policy is considering an evaluation of all ‘elements’ of the policy, including WAP.

Payments and Cost

The Government allocated \$37.6 million in the period 2001-02 to 2004-05 to DET for WAP. However, more than \$10 million was redirected as follows:

- the 2002-03 State Budget approved \$7 million to be redirected to DOIR for the BEA Program
- in November 2003, Government approved the redirection of \$2 million to the Industry Development Assistance Program
- in December 2004, the Government approved the return of \$1.3 million to the Consolidated Fund in 2005-06.

These redirections reduced the budget to \$27.3 million. Of this, \$16.2 million was provided by 31 December 2004 in special redundancy top up payments and assistance to workers and \$3.5 million was spent on administration and other costs. The average payment to applicants was \$22 843. Table 6 shows the main categories of assistance and total payments.

In addition, in March and July of 2002, more than \$4 million was approved by the Cabinet Sub Committee on the Implementation of the 'Old Growth Forest' Policy to reimburse two companies for redundancy payments made directly by them to workers.

Some \$3.5 million remains to provide for redundancy payments and assistance to current and prospective applicants. DET has advised that a recent projection of costs shows that there are sufficient funds remaining to assist further applicants.

| CATEGORY | AMOUNT (\$) |
|--|---------------------|
| Special Redundancy Payments | 12 559 706 |
| Flexible training, wage subsidy, travel and relocation | 2 342 976 |
| Mortgage / Rent Payments | 681 744 |
| Pre-Post Redundancy Training Assistance | 313 965 |
| Pieceworker Compensation ¹ | 297 398 |
| Total | \$16 195 789 |

Table 6: Amount of Assistance Provided July 2001 to December 2004

1. Compensation provided to fallers, required to provide their own equipment, for an expected loss on sale of their equipment.

Source: Department of Education and Training

DET advised that 458 applicants had completed their two year period of case management assistance and access to WAP financial support.

Payments

The examination found that DET put procedures in place to effectively manage payments of financial assistance to applicants.

The examination reviewed DET's payment process by checking some 191 payments for claims made by a sample of 32 applicants. The examination found that DET correctly calculated payments with one isolated exception that did not involve a significant amount.

Costs

Administration and other costs totalled \$3.5 million at 31 December 2004. This included \$2.8 million in administration costs (15 per cent of total WAP assistance and administration) and \$606 266 for industrial relation worker advisors. The average administration cost per applicant was \$4 015.

The costs of administering funding programs will vary depending on the size, complexity and method of delivery. This made it difficult to identify a benchmark to assess whether:

- the costs of administering WAP were reasonable
- the Program to date was delivered in the most cost effective manner.

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