

Delivery of the Petrol Sniffing Strategy in Remote Indigenous Communities

Department of the Prime Minister and Cabinet

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Office of the Auditor-General for Australia



Canberra ACT
5 May 2015

Dear Mr President
Dear Madam Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of the Prime Minister and Cabinet titled *Delivery of the Petrol Sniffing Strategy in Remote Indigenous Communities*. The audit was conducted in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's website—<http://www.anao.gov.au>.

Yours sincerely

Ian McPhee

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

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Contents

Abbreviations.....	8
Glossary	9
Summary and Recommendations	11
Summary	13
Introduction	13
Legislation	17
Audit objective, criteria and scope	18
Overall conclusion.....	18
Key findings by chapter.....	21
Summary of entity responses	24
Recommendations	25
Audit Findings	27
1. Introduction	29
Background	29
The Petrol Sniffing Strategy and the supply of LAF	33
Petrol Sniffing Strategy delivery arrangements	35
Legislation	38
Previous reviews and evaluations of the Petrol Sniffing Strategy	39
Administrative role of the Department of the Prime Minister and Cabinet.....	39
Audit objective, scope and criteria	40
Report structure	41
2. Managing the Production and Supply Arrangements for Low Aromatic Fuel	42
Introduction	42
Administration of the LAF element of the Petrol Sniffing Strategy.....	45
Expansion of the Petrol Sniffing Strategy	54
Conclusion	58
3. Procuring the Production and Storage of Low Aromatic Fuel.....	60
Introduction	60
Procuring the supply of low aromatic fuel	60
Entering into contracts for low aromatic fuel	64
Establishment of bulk storage facilities	67
Conclusion	72
4. Managing the Effectiveness of the Petrol Sniffing Strategy.....	73
Introduction	73
Performance reporting framework	73
Collecting performance information	74
Reporting of performance information	78

Conclusion	84
Appendices	87
Appendix 1: Entity Responses.....	89
Index.....	91
Series Titles.....	92
Better Practice Guides	96

Tables

Table 1.1: Historical agreements with BP Australia Pty Ltd	36
Table 1.2: Report structure	41
Table 2.1: Forecast and actual LAF production subsidies 2009–10 to 2013–14.....	47
Table 2.2: Budget allocation for the expansion of low aromatic fuel, 2010–11 Budget	54
Table 2.3: LAF production volume and subsidies 2007–08 to 2013–14	58
Table 3.1: Scope of the Request for Tender	62
Table 4.1: Assessment of Petrol Sniffing Strategy related information on petrol supply	75
Table 4.2: Assessment of current Petrol Sniffing Strategy data collection about communities	77

Figures

Figure S.1: Map of current and planned LAF sites, as at January 2015.....	16
Figure 1.1: Australian Government supply reduction initiatives to address petrol sniffing, 1985–2014	32
Figure 1.2: Map of current and planned sites, as at January 2015	35
Figure 1.3: Bulk storage fuel tank	38
Figure 2.1: Distribution subsidy amounts by region 2013–14	50
Figure 2.2: Volume of fuel produced and volume of fuel attracting a distribution subsidy, 2007–08 to 2013–14.....	51
Figure 2.3: Volume of fuel that required a distribution subsidy, by location in 2013–14.....	52
Figure 2.4: Distribution costs by location, 2013–14.....	52
Figure 2.5: Distribution arrangements to supply targeted communities in northern Australia until December 2014	55
Figure 2.6: Volume of LAF produced from 2007–08 to 2013–14	57
Figure 3.1: Relationship between the three parties in the bulk storage arrangement in Darwin	65
Figure 3.2: Original proposed supply route for LAF produced by Shell in 2012	66

Figure 3.3: Revised supply route for LAF Viva Energy in November 2014 67

Figure 3.4: Tank relocation, Darwin..... 71

Figure 4.1: Intended results of providing LAF and other PSS activities 74

Figure 4.2 LAF sites, indicating those near RULP outlets as at
December 2014 80

Figure 4.3: Number of sites provided with Low Aromatic Fuel 2006 to 2014
and planned future sites from 2015..... 81

Abbreviations

BP	BP Australia Pty Ltd
DoHA	The former Department of Health and Ageing
FEED	Front end engineering and design
LAF	Low aromatic fuel
PM&C	The Department of the Prime Minister and Cabinet
PSS	The Petrol Sniffing Strategy
PSPP	The Petrol Sniffing Prevention Program
PULP	Premium unleaded petrol
RULP	Regular unleaded petrol
Shell	The Shell Company of Australia Ltd
Viva Energy	Viva Energy Australia
Vopak	Vopak Terminal Darwin Pty Ltd

Glossary

Comgas Scheme	The Comgas scheme was a Commonwealth Government initiative to supply Avgas to participating regional and remote Indigenous communities to combat petrol sniffing outbreaks.
Low aromatic fuel	Low aromatic fuel (LAF) is an unleaded fuel with an octane rating of 91 (the same as regular unleaded petrol) that has typically very low levels of sulphur and extremely low levels of aromatics that make it less attractive for people to sniff in order to get a 'high'.
Megalitre(s)	A unit of volume equivalent to one million litres.
Opal	BP Australia Pty Ltd's brand name for its low aromatic fuel.
Petrol Sniffing	Petrol sniffing is a form of substance misuse where the fumes from petrol are inhaled, leading to intoxication. The toxic chemicals in petrol are rapidly taken up by the body through the lungs and affect the brain and central nervous system.
Petrol Sniffing Prevention Program	The Petrol Sniffing Prevention Program was introduced in February 2005 as a mechanism to supply low aromatic fuel (Opal) to participating regional and remote Indigenous communities, and was implemented by the former Department of Health and Ageing as the department's contribution to the broader whole-of-government Petrol Sniffing Strategy in 2005.

Petrol Sniffing Strategy	The Petrol Sniffing Strategy was introduced in September 2005 as a whole-of-government collaborative approach to combat petrol sniffing between the Australian Government and the governments of Western Australia, South Australia and the Northern Territory.
Volatile substances	Volatile substances give off fumes or vapours that when inhaled can create intoxication as well as significant side effects and damage to the user's brain over a period of time. Volatile substances can be in the form of: intoxicating fuels for vehicles (petrol), butane gas (lighter fluids), aerosol paints and sprays (spray paint), glue and correction fluids.

Summary and Recommendations

Summary

Introduction

1. In the late 1990s, remote Indigenous communities concerned about the incidence of petrol sniffing and its negative consequences requested assistance from the Australian Government to support efforts to tackle outbreaks. The effects of petrol sniffing on communities include: increased rates of domestic violence; petty crime such as theft and vandalism; assaults; family and social disruption as well as affecting the health of the individuals involved in sniffing. Socially, the emotional and financial impacts on the community and the health and justice systems are significant, as is the cost of treating the short and long-term health effects of sniffing related harm.¹
2. In response to concerns raised, the Australian Government commenced the Comgas Scheme in 1998, which subsidised the provision of Avgas, a low aromatic leaded aviation fuel, to participating communities. The lower aromatic formula does not produce the same intoxicating effects as regular petrol. Avgas was unattractive to petrol sniffers but was not a viable long term option as Australia was phasing out leaded fuels generally. In 2005, a low aromatic unleaded fuel (LAF) was developed by BP Australia Pty Ltd (BP) as a substitute to regular unleaded petrol (RULP) and the Australian Government commenced supporting its distribution to communities.
3. Petrol sniffers tend to be young people from disadvantaged backgrounds and marginalised groups.² The Senate Community Affairs References Committee in 2006 documented underlying causes of petrol sniffing in Indigenous communities as including: poverty and hunger; boredom; the cultural and social impacts of colonisation and interaction with the non-Indigenous community; a lack of employment and education opportunities; and social factors such as family breakdown, neglect, and peer group pressure.³ The sniffing of volatile substances is not confined to petrol.

1 Senate Community Affairs References Committee, *Beyond Petrol Sniffing: Renewing Hope for Indigenous Communities*, June 2006, pp. xv, 23 and 28.

2 Midford R, MacLean S, Catto M, Thomson N, Debuyst O, 'Review of volatile substance use among Indigenous people', *Australian Indigenous HealthInfoNet. Issue No. 6*, [Internet] March 2011, p. 4, available from < <http://www.healthinonet.ecu.edu.au/uploads/docs/volatile-review.pdf>> accessed 20 February 2015.

3 Senate Community Affairs References Committee, *Beyond Petrol Sniffing: Renewing Hope for Indigenous Communities*, June 2006, p. 23.

Other commonly available products known to create similar effects include aerosol sprays, such as deodorant, glue, spray paint and butane gas (lighter fluids). Addressing the use of these other volatile substances is not currently the primary focus of the Australian Government's efforts to reduce petrol sniffing.

The Petrol Sniffing Strategy

4. Building on the earlier Comgas Scheme, the Australian Government established the Petrol Sniffing Prevention Program (PSPP) in February 2005 as a mechanism to supply LAF to participating communities. PSPP was implemented by the former Department of Health and Ageing (DoHA) and became the department's contribution to the broader whole-of-government Petrol Sniffing Strategy (PSS). The PSS was developed in September 2005 as a collaborative approach between the Australian and the Western Australian, South Australian and Northern Territory governments, with the objective of reducing the incidence and impact of petrol sniffing. Under the PSS, the respective jurisdictions agreed to focus on developing: consistent legislation; appropriate levels of policing; further roll out of LAF; alternative activities for young people; treatment and respite facilities; communication and education strategies; strengthening and supporting communities; and evaluation. These activities are collectively referred to as the Petrol Sniffing Strategy Eight Point Plan.

5. Prior to September 2013, the Australian Government contribution to the PSS was delivered by four departments. DoHA delivered the LAF component and undertook research and data collection; the former Department of Families, Housing, Community Services and Indigenous Affairs was responsible for overall coordination of the strategy and providing funding for community strengthening initiatives. The Attorney-General's Department delivered the Indigenous justice components including the surveillance of trafficking in volatile substances and other drugs and the former Department of Education, Employment and Workplace Relations provided education and work-related diversionary activities targeting youth at risk of sniffing.

6. Following the 2013 Federal election, responsibility for the delivery of Australian Government Indigenous programs was transferred to the Department of the Prime Minister and Cabinet (PM&C), including activities in relation to the PSS. Subsequently, Indigenous program funding arrangements were consolidated in 2014, which resulted in approximately 150 individual programs and activities being brought together into the Indigenous

Advancement Strategy (IAS). Within the IAS there are five program areas, and organisations may apply for grant funding to support the delivery of relevant activities. Petrol sniffing activities generally fall within the Safety and Wellbeing Programme. While the IAS is mainly a grants program, the Government has agreed to implement specific initiatives through the program, including the supply of LAF. As at 21 April 2015, PM&C was negotiating agreements with various organisations for the provision of services under the IAS.

7. Since its establishment, the PSS has been periodically expanded to enable the supply of LAF to new areas. An initial 41 sites⁴, principally in the Central Desert Region⁵, received LAF in 2005.⁶ In the 2006–07 Federal Budget, \$20.1 million over four years was allocated to extending the strategy to two more zones: the ‘Extended Central Desert Region’ and the East Kimberley. Additional sites in the Northern Territory, Western Australia and Queensland outside the identified priority areas were also supplied with LAF and included in the strategy during this time. A further \$12 million over three years was allocated by the Australian Government to supply LAF to fuel outlets in Alice Springs from 2007–08. To address the need for continuing efforts to reduce the incidence and impact of petrol sniffing, the PSS became an ongoing Budget measure in 2008.

8. By 2010, LAF was being supplied to 106 sites. As part of the 2010–11 Budget, the Australian Government announced a new Budget measure, *Enhancing the Supply and Uptake of Opal Fuel*⁷, which committed a further \$38.5 million to supply LAF and included funding to access bulk fuel storage facilities in Darwin. As part of this measure an additional 39 sites covering 11 communities across the Northern Territory, Queensland and Western Australia were to be targeted. As at January 2015, LAF was available at 138 sites. The distribution of current and planned LAF sites across the Northern Territory, South Australia, Western Australia and Queensland, as at January 2015, is shown in Figure S1.

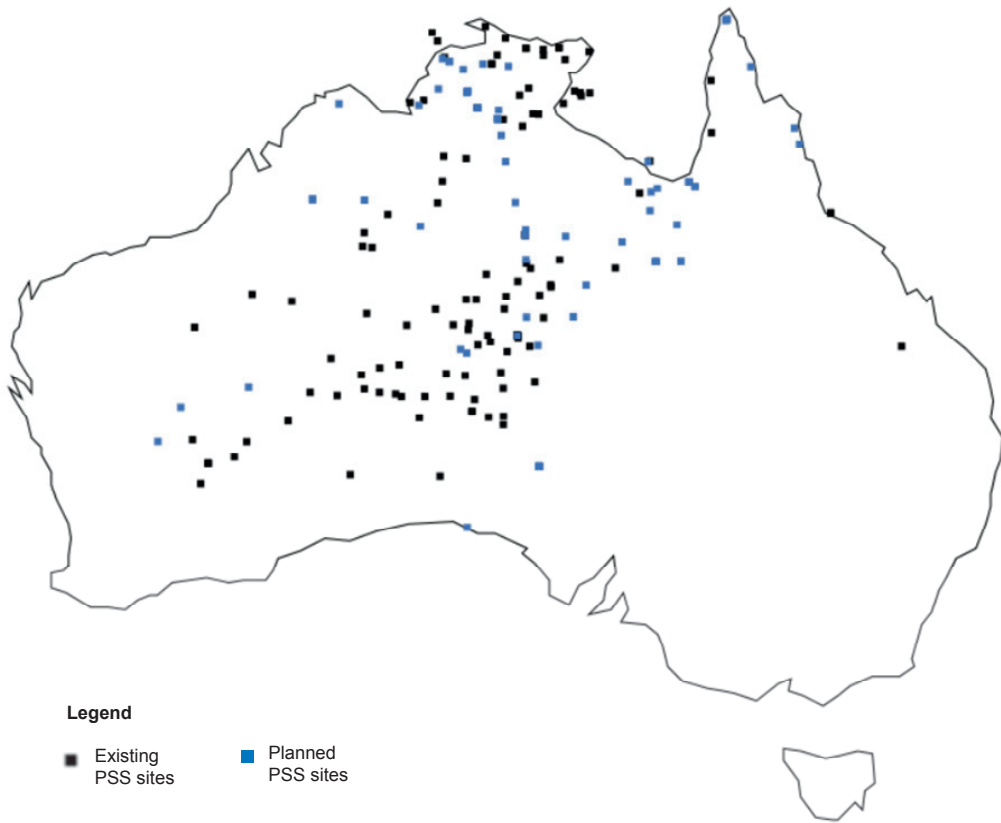
4 Some of these sites were already part of the Comgas Scheme.

5 A designation for planning purposes, the Central Desert Region refers to sites in Central Australia participating in the PSS from 2005. These sites were situated in Western Australia, South Australia and the Northern Territory.

6 Sites include community stores, council depots, fuel retailers and pastoral stations.

7 Australian Government, *Portfolio Budget Statements 2010–11 Health and Ageing Portfolio*, Canberra, 2010, p. 45.

Figure S.1: Map of current and planned LAF sites, as at January 2015



Source: ANAO analysis of PM&C data.

9. As LAF is required to be produced, distributed and stored separately to RULP, there are additional costs involved in supplying it to Indigenous communities. To prevent these costs acting as a barrier to the purchase of LAF, the Australian Government subsidises its production and distribution so that LAF may be made available at the same price to fuel outlets as RULP. Funding agreements for the production, storage and distribution of LAF were entered into at various times between 2005 and 2011, when these elements of the PSS were administered by the former DoHA. Between 2005 and 2012, the Australian Government funded BP to produce LAF under a grant arrangement. In 2012, to support an expansion of the PSS and after a procurement process, production contracts were entered into with BP and with The Shell Company of Australia Ltd (now known as Viva Energy Australia). Also, in December 2013, the Australian Government entered into an agreement with Vopak Terminal Darwin Pty Ltd (Vopak) to construct a bulk storage fuel

tank to support the expansion of the PSS by allowing an increased supply of LAF in northern Australia.

10. The PSS is administered by PM&C and, as mentioned in paragraph 6, is funded as a specific initiative under the Safety and Wellbeing Programme of the IAS. Annual expenditure for the LAF component of the PSS over the last two financial years has been on average \$24 million. Expenditure for 2014–15 is also expected to be approximately \$24 million.

Legislation

11. In targeted regional and remote areas where LAF has been rolled out, the majority of fuel outlets have participated voluntarily. Some outlets, however, have chosen not to stock the fuel, creating a potential supply pathway for RULP into vulnerable communities which may reduce the effectiveness of efforts to control petrol sniffing. In March 2012, a Private Member's Bill, the Low Aromatic Fuel Bill 2012, was passed by Parliament and received Royal Assent on 14 February 2013.⁸ The *Low Aromatic Fuel Act 2013* (the Act) provides the responsible Minister⁹ with discretionary powers to designate a fuel control area and to determine the requirements relating to the supply, transportation, possession and storage of fuel in those areas. The Act aims to promote the supply of LAF in designated areas by prohibiting the supply of RULP. Powers under the Act have not been used as at April 2015 and the PSS continues to operate on the basis of voluntary participation. PM&C advised that two outlets previously reluctant to participate in the PSS voluntarily switched to supplying LAF after the bill passed.

Administrative role of the Department of the Prime Minister and Cabinet

12. PM&C is responsible for the implementation of Australian Government components of the PSS, including providing advice and information on the strategy as requested by the Minister and Parliament. With regard to the provision of LAF, PM&C's main functions include:

- managing the contracts for the subsidised production of LAF;
- managing the subsidy arrangements with petrol distributors;

8 This Bill was introduced by Senator Rachel Siewert, Australian Greens.

9 Currently, the Minister for Indigenous Affairs.

- negotiating and managing the agreement for the construction of a bulk storage facility in Darwin;
- preparing communities to receive LAF, including consultation and logistical arrangements;
- developing and managing a communication strategy; and
- managing ongoing research and data collection for the PSS to assess the effectiveness of the provision of LAF.

Audit objective, criteria and scope

13. The objective of the audit was to assess the effectiveness of the Department of the Prime Minister and Cabinet's management of initiatives to supply low aromatic fuel to Indigenous communities.

14. To conclude on this objective, the ANAO's high-level criteria considered: the service delivery arrangements in place to supply LAF to targeted Indigenous communities; the implementation of the expansion of the PSS, and the arrangements in place to monitor the supply of LAF; and assess the impact of its supply in line with the Government's expectations.

Scope

15. The audit focussed on the administration of arrangements to support the supply and distribution of LAF. In particular the audit examined the procurement process conducted in 2011 for the production, transport to storage and storage of LAF which resulted in the contracts and agreements referred to in paragraph 9. The audit also examined the monitoring and reporting arrangements for the PSS, particularly in relation to the supply of LAF.

Overall conclusion

16. Through the Petrol Sniffing Strategy (PSS), the Australian Government has supported initiatives to reduce the incidence and impact of petrol sniffing in remote Indigenous communities since 2005.¹⁰ The key element of the PSS is to subsidise the production of low aromatic fuel (LAF) so that it replaces regular unleaded petrol (RULP) in areas at risk of petrol sniffing outbreaks,

10 In 1998, the Australian Government commenced the Comgas Scheme, which subsidised the provision of Avgas, a non-aromatic leaded fuel to participating communities. The current PSS has built on the Comgas Scheme.

without the higher production costs acting as a barrier to its uptake. While there are many underlying causes of petrol sniffing, generally associated with young people from disadvantaged backgrounds and marginalised groups, research results have indicated that the introduction of LAF has been successful in contributing to reductions in the incidence of petrol sniffing. For this reason, additional funding has been made available by the Australian Government to expand the supply and distribution of LAF.

17. From an initial 41 sites in June 2005, the PSS expanded and, as at January 2015, LAF was available in 138 sites associated with 78 Indigenous communities in Western Australia, Queensland, South Australia and the Northern Territory. Consistent with the policy objective of the PSS, these sites are located in regional and remote areas of Australia. While the number of sites has increased, the overall annual volume of LAF produced has largely remained stable since 2007–08 with approximately 21 megalitres being produced on average each year.¹¹ No performance targets have been set in relation to the volume of LAF produced and distributed, although contracts with LAF producers allow for an annual production of up to 53 megalitres.

18. In the most recent expansion of the PSS in 2010–11, the Australian Government provided additional funding to include 39 sites covering 11 communities in Northern Australia, with an associated increase in annual volume of production of LAF. As well as supporting extra production capacity, a significant element of the increased funding was to provide for additional storage facilities as the lack of bulk storage had been identified as the key barrier to expanding the PSS in northern Australia. Following a select tender,¹² the department responsible for providing LAF, the then Department of Health and Ageing (DoHA), entered into contracts with two major fuel producers to supply LAF to different regions of Australia. The development of additional storage infrastructure was initially included by DoHA in the tender for fuel production, however, the department subsequently chose to enter into direct negotiations with the operators of terminal facilities in Darwin. These negotiations were anticipated to have been completed in time to allow for facilities to be operational by 1 July 2012 which, in turn, would enable the contracts for increased production to commence.

11 In 2014, domestic production of petrol was 14 000 megalitres of which LAF production represents 0.15 per cent.

12 Under the *Commonwealth Procurement Rules* (2014) a select tender is now referred to as a pre-qualified tender.

19. Negotiations were lengthy and remained ongoing at the time the responsibility for petrol sniffing initiatives was transferred to the Department of the Prime Minister and Cabinet (PM&C) in September 2013. An agreement for capital works was subsequently executed in December 2013, which enabled work to commence on developing the required storage infrastructure. The storage facility became operational in November 2014, more than two years later than expected. As a result of the delay, implementation of the expansion fell short of the Government's initial expectations. The facility was also more expensive than first anticipated, with the contracted cost of establishing the bulk storage facility being up to \$19.2 million (including GST)—exceeding significantly the initial estimates of up to \$12.9 million. Following the establishment of storage facilities, additional production of LAF commenced in late November 2014 and PM&C anticipates that the annual volume of LAF produced in 2015–16 will double.

20. The department's processes for managing existing contractual arrangements and for monitoring the delivery of LAF are largely sound. Information collected under the production and distribution agreements enables PM&C to maintain appropriate visibility over the volume of LAF supplied and the locations of sites to which it is supplied. The main approach of the PSS is to reduce the availability of RULP in high risk communities by encouraging fuel outlets serving those communities and outlets in surrounding areas to only stock LAF and create a distance buffer zone around vulnerable communities. Accordingly, PM&C monitors supply information so that sites ceasing to supply LAF can be contacted and encouraged to continue to participate in the PSS. In addition, since 2005, a contracted research provider has assessed a sample of communities periodically for incidences of petrol sniffing and the role of LAF in reducing outbreaks. As a result of these data collection arrangements, PM&C has a reasonable evidence base to support the assessment of LAF in reducing the incidence of petrol sniffing.

21. Between 2005 and 2009, the supply of LAF was identified as a program in the Health and Ageing Portfolio Budget Statements, and DoHA reported against the number of sites providing LAF as an indicator of performance for the PSS. Between 2009 and 2014 there was no formal reporting on the progress of the strategy. While the PSS has expanded, albeit more slowly than anticipated, there has been little information publicly reported on the effect that the supply of LAF has had on reducing the incidence of petrol sniffing in Indigenous communities. Research indicates that the supply of LAF is making a positive contribution to reducing petrol sniffing. The design of the PSS, however, also acknowledges that there are limitations to taking a single

approach and that other actions need to be undertaken in conjunction with the supply of LAF to successfully address the issue of petrol sniffing. In 2014, the PSS was identified in the Prime Minister and Cabinet Portfolio Budget Statements as a specific initiative to be delivered under the Safety and Wellbeing Programme, with the key performance indicator being the number of sites providing LAF. Using this narrowly-focussed indicator alone, however, will provide for only a limited assessment of performance. In view of the PSS's maturity, it is timely for PM&C to strengthen its PSS-related performance reporting by including a greater focus on assessing the impact of the PSS.

22. The ANAO has made one recommendation to improve PM&C's accountability and reporting for the PSS.

Key findings by chapter

Managing the Production and Supply Arrangements for Low Aromatic Fuel (Chapter 2)

23. PM&C has maintained appropriate administrative arrangements over the LAF component of the PSS, including planning and consultation for the roll out of LAF to new sites and for the monitoring of existing production contracts and distribution agreements. Information collected as part of the administration arrangements provides adequate oversight of the reach of the PSS and the distribution of LAF to sites. The volume of LAF distributed through the PSS has largely remained unchanged since 2007 as attempts to expand supply were hindered by the limited availability of appropriate bulk storage facilities in northern Australia.

24. Funding was provided to develop appropriate facilities in Darwin but delays in the establishment of these facilities affected the ability of the new contractor to produce LAF, and also effectively stalled the expansion of the supply of LAF to targeted communities. Nevertheless, since 2010–11, 32 sites have joined the PSS where there was a community need and logistical arrangements for delivery of LAF could be satisfied. Four of the 32 sites were part of the 39 targeted as part of the expansion of the PSS in 2010–11. Conversely, in 2013–14 nine sites stopped receiving LAF. PM&C advised that two of these sites switched to selling only premium unleaded and diesel fuel. Now that the bulk storage in Darwin is operational and additional LAF is being produced, PM&C has published a proposed timetable for 2015, identifying areas where LAF is to be introduced, including the remaining 35 sites that were initially targeted as well as additional areas identified since 2010–11.

Procuring the Production and Storage of Low Aromatic Fuel (Chapter 3)

25. In 2012, DoHA undertook a procurement process to increase the production of LAF and to address the bulk storage issues that had been identified as a barrier to expansion. Following a select tender, contracts were awarded in June 2012 to BP and in October 2012 to Shell (now known as Viva Energy Australia), with the production of additional LAF by Shell subject to establishing the bulk storage arrangements in Darwin. The process undertaken to approach the market to source suppliers of LAF was reasonable and the assessment of the tenders for the production of LAF was generally satisfactory. However, the subsequent decision to negotiate directly with the storage facility provider for the capital works was poorly documented and the tenderers informed sooner than they were.

26. Other documents generated at the time of, and subsequent to, the decision to negotiate directly for the construction of the bulk storage facility indicated that the reasons for this decision included reducing the risks and the costs of the procurement. Nonetheless, in 2011, a new bulk storage fuel tank was expected to cost between \$6.2 million and \$12.9 million¹³, but after a complex and difficult negotiation, the Government contracted for a cost of up to \$19.2 million for the relocation and refurbishment of an existing biodiesel tank at the Darwin facility. It was not until mid-November 2014 that the storage facility became operational, over two years later than initially proposed, with a consequential delay to the expansion of the PSS.

Managing the Effectiveness of the Petrol Sniffing Strategy (Chapter 4)

27. Research and data collection arrangements to assess the effect of the provision of LAF are well-developed. Since 2005, a contracted research provider has assessed a sample of communities periodically for incidences of petrol sniffing. Also, when sniffing outbreaks occur in regional and remote Indigenous communities, these are investigated by the research provider, including validating the extent of the outbreak and identifying the source of the fuel. The arrangements were put in place at the commencement of the strategy and the periodic data collection in these communities has enabled an

13 The estimate provided was \$9.585 million (plus or minus 35 per cent).

assessment of results in these communities over time.¹⁴ As a result of these data collection arrangements, PM&C has built up a reasonable evidence base to support the assessment of LAF in reducing the incidence of petrol sniffing.

28. Public reporting on the PSS has been sporadic. A selection of evaluation reports, or summaries, has been made publicly available following their completion. An interim report on the current data collection project was also published in 2013. Parliamentary interest has resulted in information being provided to Senate Committees and subsequently made publicly available through the release of Hansard transcripts. However, formal reporting to the Parliament has been limited. Between 2005 and 2009, the LAF component of the PSS administered by DoHA was considered a program for the purposes of the Portfolio Budget Statements and a key performance indicator, the number of sites with LAF, was established and formally reported against. Between 2009 and 2014, no formal reporting was undertaken for the PSS and the strategy was not considered as a program for the purpose of the Portfolio Budget Statements. For 2014–15, PM&C reinstated the indicator previously used by DoHA, but as a key performance indicator for the broader Safety and Wellbeing Programme under which the PSS is funded as a specific initiative.

29. An indicator using the number of sites with LAF is useful in terms of providing relevant information about the PSS's footprint, but it does not support, by itself, an assessment of performance against the strategy's broader objective. There is scope for PM&C to strengthen its public reporting by developing formal indicators that have a greater focus on the impact of the PSS in reducing the incidence and impact of petrol sniffing. Further information could be available to the public through: PM&C's existing petrol sniffing website including information on the number of sites where LAF is available; the number of areas where RULP is no longer available within a defined distance; and the volume of LAF distributed. This would provide for a more rounded assessment of the use of LAF and the extent that the PSS has been successful in displacing RULP in targeted areas.

14 In 2005–06, 74 communities situated in remote Australia were surveyed to establish a baseline. In 2007–08, 20 communities were re-visited as part of an impact study. In 2011–12, 41 communities drawn from nine regions located in the Northern Territory, South Australia, Western Australia and Queensland were included in the data collection.

Summary of entity responses

Response from the Department of the Prime Minister and Cabinet

30. *The Department agrees with the ANAO's recommendation aimed at improving the accountability and reporting for the Petrol Sniffing Strategy. This recommendation, as well as the report as a whole, will be taken into account in the future planning and administration of the Strategy.*

Response from Viva Energy Australia

31. *Viva Energy Australia Ltd entered into a contract for the provision of up to 30 million litres of low aromatic fuel per year across northern Australia in October 2012, following a competitive tendering process. The Contract for Services with Viva Energy has been amended a number of times by mutual agreement of the parties, to enable the extension of the contract period to account for construction delays at the Vopak Darwin Terminal, to reflect the change of control in the Contractor from Shell to Vitol in August 2014, and to enable the change in both planned supply and storage locations.*

32. *Practical Completion of the Vopak Darwin Terminal storage, which was a condition precedent to the Contract for Services, occurred on 17 November 2014. The supply of Low Aromatic Fuel to approved purchasers from the Darwin Terminal commenced on 21 November 2014, with supplies from the Weipa and Townsville Terminals following closely after in February and March 2015 respectively.*

Recommendations

**Recommendation
No. 1****Paragraph 4.25**

In order to improve accountability and reporting for the Petrol Sniffing Strategy, the ANAO recommends that the Department of the Prime Minister and Cabinet:

- (a) strengthens its reporting in relation to the impact of the Petrol Sniffing Strategy; and
- (b) includes on its existing petrol sniffing website more detailed information on the progress in supplying low aromatic fuel against targets as well as other information on volume and continued access to regular unleaded petrol.

Response from the Department of the Prime Minister and Cabinet: *Agreed.*

Audit Findings

1. Introduction

This chapter provides the background and context of the Australian Government's Petrol Sniffing Strategy and outlines the audit objective, scope and criteria.

Background

1.1 In the late 1990s, remote Indigenous communities concerned about the incidence of petrol sniffing and its negative consequences requested assistance from the Australian Government to support efforts to tackle outbreaks. Petrol is a volatile substance that when inhaled induces a state of intoxication. The toxic chemicals in petrol, called hydrocarbons, rapidly enter the bloodstream through the lungs affecting the brain and central nervous system. The effects of petrol sniffing on communities include: increased rates of domestic violence; petty crime such as theft and vandalism; assaults; family and social disruption as well as affecting the health of the individuals involved in sniffing. Socially, the emotional and financial impacts on the community and the health and justice systems are significant, as is the cost of treating the short and long-term health effects of sniffing related harm.¹⁵

1.2 Petrol is generally readily available and required for use in everyday activities. International studies indicate that petrol sniffers tend to be young people from disadvantaged backgrounds and marginalised groups.¹⁶ The Senate Community Affairs References Committee in 2006 documented underlying causes of petrol sniffing in Indigenous communities as including: poverty and hunger; boredom; the cultural and social impacts of colonisation and interaction with the non-Indigenous community; a lack of employment and education opportunities; and social factors such as family breakdown, neglect, and peer group pressure.¹⁷ The sniffing of volatile substances is not confined to petrol. Other commonly available products known to create similar effects include aerosol sprays, such as deodorant, glue, spray paint and butane gas (lighter fluids). Addressing the use of these other volatile substances is not

15 Senate Community Affairs References Committee, *Beyond Petrol Sniffing: Renewing Hope for Indigenous Communities*, June 2006, pp. xv, 23 and 28.

16 Midford R, MacLean S, Catto M, Thomson N, Debuyst O, 'Review of volatile substance use among Indigenous people', *Australian Indigenous HealthInfoNet. Issue No.6* [Internet] March 2011, p. 4, available from < <http://www.healthinonet.ecu.edu.au/uploads/docs/volatile-review.pdf>> accessed 20 February 2015.

17 Senate Community Affairs References Committee, *Beyond Petrol Sniffing: Renewing Hope for Indigenous Communities*, June 2006, p. 23.

currently the primary focus of the Australian Government's efforts to reduce petrol sniffing.

History of initiatives and policies

1.3 The impact of petrol sniffing on remote Indigenous communities was highlighted in the mid-1980s. In 1985, the Senate Select Committee on Volatile Substance Fumes reported that approximately 2000 children in Central Australia were sniffing petrol, representing about 10 per cent of all Indigenous children in the area at the time.¹⁸ When considered at the population level the number of Indigenous children sniffing petrol may not seem significant, but for a small remote community in which petrol sniffing may be endemic, the proportion of children engaged in petrol sniffing can be relatively high and the impact of their behaviours can devastate and dominate many aspects of community life.¹⁹

1.4 During the 1980s, some communities introduced a number of measures to tackle petrol sniffing, including: locking petrol bowsers; funding specific programs for petrol sniffers; and the addition of 'ethyl mercaptan', a sulphur-based stenching agent, to leaded petrol to deter people from sniffing.²⁰ In the late 1990s, the Australian Government provided subsidised Avgas, a leaded aviation fuel, as a substitute for petrol under the Comgas Scheme to registered remote communities in the Northern Territory and South Australia. Avgas, produced by BP Australia Pty Ltd (BP), contained significantly fewer hydrocarbons in comparison to regular petrol and, consequently, the inhalation of Avgas did not induce intoxication.²¹ Whilst the Comgas Scheme was considered 'a safe, effective, and popular intervention',²² the high lead content and issues related to the suitability of use in motor vehicles meant that Avgas could not provide a long term solution.

18 Senate Select Committee on Volatile Substance Fumes, *Volatile Substance Abuse in Australia*, Canberra, 1985, p. 156, cited on p. 2 of the Senate Community Affairs Legislation Committee, *Low Aromatic Fuel Bill 2012*, final report, September 2012.

19 Origin Consulting, *Whole of Strategy Evaluation of the Petrol Sniffing Strategy: Future Directions for the PSS*, Final Report, January 2013, p. 11.

20 Senate Community Affairs Legislation Committee, (2012), *Low Aromatic Fuel Bill 2012*, Commonwealth of Australia, p. 7.

21 South Australian Centre for Economic Studies, *Cost Benefit Analysis of Legislation to Mandate the Supply of Opal Fuel in Regions of Australia*, Final Report, Adelaide, January 2010, p. 15.

22 Shaw, G, et. al. *An Evaluation of the Comgas Scheme*, Department of Health and Ageing, Australian Government, 2004, recommendation 1, p. 9.

1.5 To reduce the serious health risks from lead emissions generally, the Australian Government began phasing out leaded fuel across Australia in 2000 under the *National Fuel Quality Standards Act 2000*. From 1 January 2002, the sale of leaded fuels was prohibited. After the changes in the fuel standards, Avgas was no longer suitable for use in deterring petrol sniffing and BP developed a low aromatic, low lead alternative to regular unleaded petrol (RULP) with the brand name 'Opal'. As a low aromatic fuel, Opal is a replacement for RULP, which is similar in terms of performance but contains fewer hydrocarbons that cause intoxication. Since the introduction of the Petrol Sniffing Strategy (PSS) in 2005, low aromatic fuel (LAF) has been progressively distributed throughout regional and remote communities. Funding from the PSS currently provides a subsidy²³ for the production and distribution of LAF so that it is provided to consumers at the same price as RULP.

1.6 The persistent and pervasive nature of petrol sniffing, particularly in remote communities, has prompted intervention by every level of government. However, the need for a comprehensive approach was made clear by the Senate Community Affairs Committee in 2006:

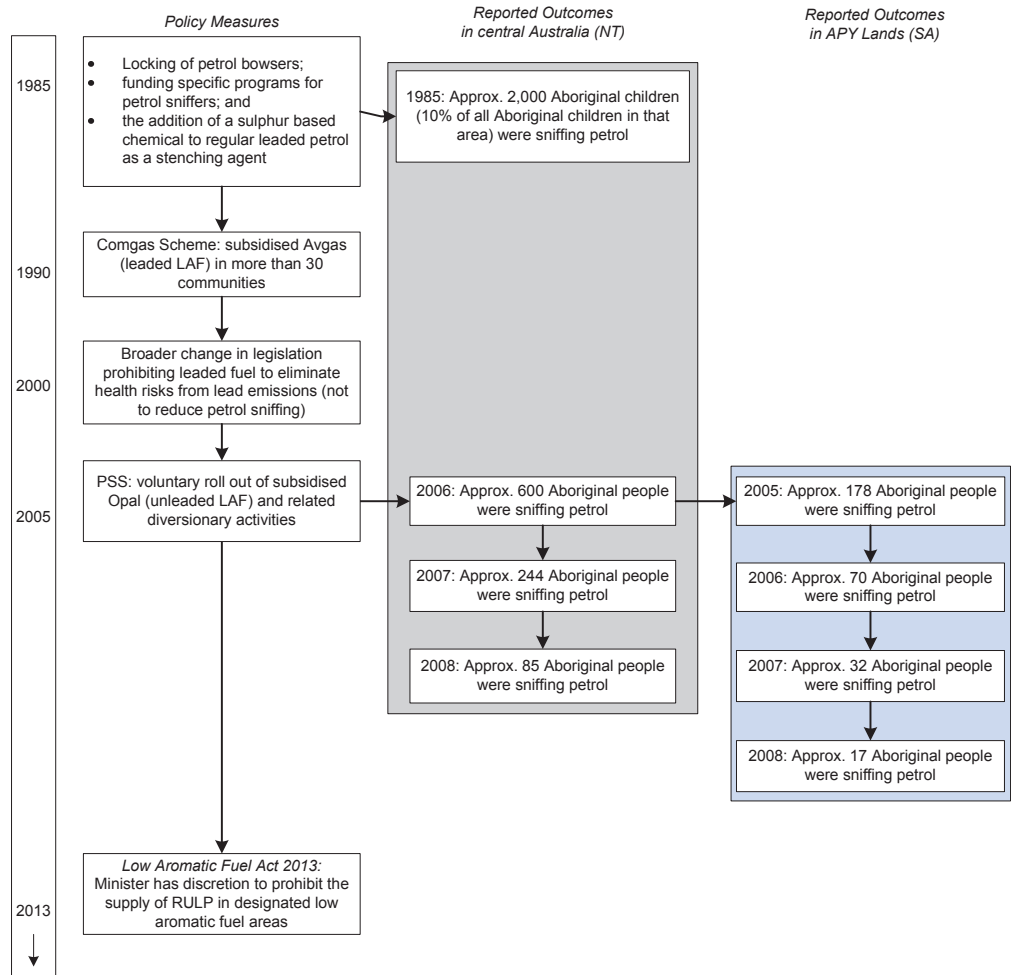
the Committee believes that petrol sniffing in Indigenous communities has become so destructive and the need to find effective solutions is so urgent that the Council of Australian Governments must take responsibility for initiatives that address petrol sniffing.²⁴

1.7 The range of supply reduction initiatives that has been undertaken by the Australian Government since 1985 to address petrol sniffing in regional and remote Indigenous communities is shown in Figure 1.1. Reported estimates of the progressive reduction in petrol sniffing in central Australia and the Anangu Pitjantjatjara Yankunytjatjara (APY) lands are also provided in Figure 1.1.

23 Prior to 2012, a subsidy was paid to the producer of LAF under a grant funding agreement. After 2012, with the contractual arrangements for the production of LAF, the subsidy was termed a service fee. Subsidies have continued to be paid to certain distributors of LAF under grant agreements.

24 Senate Community Affairs References Committee, *Beyond Petrol Sniffing: Renewing Hope for Indigenous Communities*, June 2006, p. xv.

Figure 1.1: Australian Government supply reduction initiatives to address petrol sniffing, 1985–2014



Source: ANAO, compiled from reports of the Senate Select Committee on Volatile Substance Fumes (1985) and the Senate Standing Committee on Community Affairs (2009).

Notes: The 1985 figures in Figure 1.1 are taken from the Senate Select Committee on Volatile Substance Fumes, *Volatile Substance Abuse in Australia*, Canberra, 1985, p. 156.

The 2005, 2006, 2007 and 2008 figures in Figure 1.1 were taken from the Senate Standing Committee on Community Affairs, *Grasping the Opportunity of Opal: Assessing the impact of the Petrol Sniffing Strategy*, Canberra, 2009, pp. 7–8. These figures are approximate numbers of those engaged in petrol sniffing in selected communities and are not based on a census of all communities where individuals were known to be sniffing petrol.

The Petrol Sniffing Strategy and the supply of LAF

1.8 Building on the earlier Comgas Scheme, the Australian Government established the Petrol Sniffing Prevention Program (PSPP) in February 2005 as a mechanism to supply LAF to participating communities. The PSPP was implemented by the former Department of Health and Ageing (DoHA) and became the department's contribution to the broader whole-of-government Petrol Sniffing Strategy (PSS). The PSS was developed in September 2005 as a collaborative approach between the Australian and the Western Australian, South Australian and Northern Territory governments, with the objective of reducing the incidence and impact of petrol sniffing. Under the PSS, the respective jurisdictions agreed to focus on developing: consistent legislation; appropriate levels of policing; further roll out of LAF; alternative activities for young people; treatment and respite facilities; communication and education strategies; and strengthening and supporting communities and evaluation. These activities are collectively referred to as the Petrol Sniffing Strategy Eight Point Plan.

1.9 Prior to September 2013, the Australian Government contribution to the PSS was delivered by four departments. DoHA delivered the LAF component and undertook research and data collection; the former Department of Families, Housing, Community Services and Indigenous Affairs was responsible for overall coordination of the strategy and providing funding for community strengthening initiatives; the Attorney General's Department delivered the Indigenous justice components including the surveillance of trafficking in volatile substances and other drugs; and the former Department of Education, Employment and Workplace Relations provided education and work-related diversionary activities targeting youth at risk of sniffing.

1.10 Following the 2013 Federal election, responsibility for the delivery of Australian Government Indigenous programs was transferred to the Department of the Prime Minister and Cabinet (PM&C), including activities in relation to the PSS. Subsequently, Indigenous program funding arrangements were consolidated in 2014, which resulted in approximately 150 individual programs and activities being brought together into the Indigenous Advancement Strategy (IAS). Within the IAS there are five program areas, and organisations may apply for grant funding to support the delivery of relevant activities. Petrol sniffing activities generally fall within the Safety and Wellbeing Programme. While the IAS is mainly a grants program, the Government has agreed to implement specific initiatives through the program,

including the supply of LAF. As at 21 April 2015, PM&C was negotiating agreements with various organisations for the provision of services under the IAS. Given the changes to Indigenous programs and the current state of negotiations with successful applicants, PM&C was not able to provide advice on the status of activities previously funded as part of the PSS Eight Point Plan such as Indigenous justice and diversionary activities for youth and community strengthening initiatives.

1.11 Since its establishment, the PSS has been periodically expanded to enable the supply of LAF to new areas. An initial 41 sites²⁵, principally in the Central Desert Region²⁶ received LAF in 2005.²⁷ In the 2006–07 Federal Budget, \$20.1 million over four years was allocated to extending the PSS to two more zones: the ‘Extended Central Desert Region’ and the East Kimberley. Additional sites in the Northern Territory, Western Australia and Queensland outside the identified priority areas were also supplied with LAF and included in the PSS during this time. A further \$12 million over three years was allocated by the Australian Government to supply LAF to fuel outlets in Alice Springs from 2007–08. To address the need for continuing efforts to reduce the prevalence and incidence of petrol sniffing, the PSS became an ongoing Budget measure in 2008.

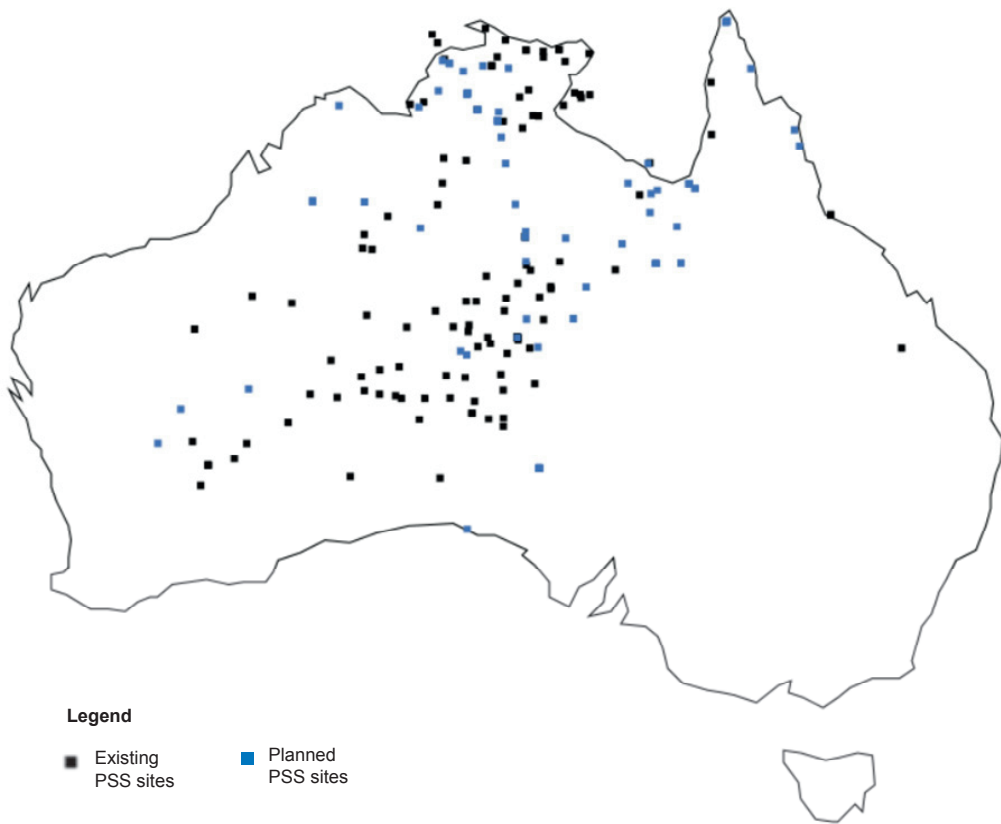
1.12 In May 2010, LAF was being supplied to 106 sites. As part of the 2010–11 Budget, the Australian Government announced a new Budget measure, *Enhancing the Supply and Uptake of Opal Fuel*²⁸, which committed a further \$38.5 million to increase the supply of LAF and included funding to develop bulk fuel storage facilities in Darwin. The funding was intended to expand the PSS to an additional 39 sites covering 11 communities across the Northern Territory, Queensland and Western Australia. As at January 2015, LAF was available at 138 sites. The distribution of current and planned LAF sites across the Northern Territory, South Australia, Western Australia and Queensland, as at January 2015, is shown in Figure 1.2.

25 Some of these sites were already part of the Comgas Scheme.

26 A designation for planning purposes, the Central Desert Region refers to sites in Central Australia participating in the PSS from 2005. These sites were situated in Western Australia, South Australia and the Northern Territory.

27 Sites include community stores, council depots, fuel retailers and pastoral stations.

28 Australian Government, *Department of Health and Ageing Budget Measures 2010–11*, p. 45.

Figure 1.2: Map of current and planned sites, as at January 2015

Source: ANAO analysis of PM&C information.

Petrol Sniffing Strategy delivery arrangements

Production

1.13 LAF is similar to RULP with respect to its reported performance factors such as vehicle economy and efficiency. However, it has a higher cost of production than RULP because it requires additional refining and additives and is produced in smaller quantities. To maintain its production specifications, LAF requires separate distribution and storage arrangements.

1.14 Between, 2005–2012, the Australian Government subsidised BP for the production of LAF under a series of agreements. Over this period, the production subsidy reduced from \$0.30 to \$0.22 per litre. The details of the historical agreements are shown in Table 1.1.

Table 1.1: Historical agreements with BP Australia Pty Ltd

Effective Date	Subsidy rate Cents per litre	Value of total contract (\$m incl GST)	Volume of LAF (megalitres)
2005–06	30	1.3	4.3
2006–10	27	25.0	92.8
2010–12	27–22 ¹	9.5	42.1

Source: ANAO analysis of PM&C information.

Note 1: BP lowered the subsidy rate from 1 September 2012.

1.15 To support the expansion of the PSS, after a request for tender, DoHA entered into production, transport and storage contracts in 2012. With the new contractual arrangements, DoHA changed from providing a subsidy through a grant agreement to a fee for service model under contractual arrangements. The structure of the fee for service requires separate identification of the production, transport and storage charges to provide greater transparency.

1.16 In June 2012, DoHA entered into a contract valued at \$23.2 million (GST inclusive) with BP to supply 24.6 megalitres per year. BP is contracted to supply the Western Australian Goldfields, South Australia and the Alice Springs region and does so using its refinery in Kwinana, Western Australia and bulk storage facilities in Largs North, South Australia and Kalgoorlie, Western Australia.

1.17 A new supplier was also contracted following the tender process. The Shell Company of Australia Ltd (Shell, now known as Viva Energy Australia²⁹) entered into a contract in October 2012 valued at \$41.8 million (GST inclusive) to supply 28.6 megalitres of LAF per year to the Top End of the Northern Territory, the Gulf of Carpentaria and Cape York as well as the East Kimberley for four years. Viva Energy commenced production of LAF at its Geelong refinery in Victoria in November 2014 and uses storage facilities in Darwin, Weipa and Townsville.

1.18 From 2015, the PSS will rely on five bulk storage terminals from which LAF is sold to approved purchasers.³⁰ Producers will be paid for LAF sold from terminals, with the service fee varying to reflect the relative costs involved in transporting and using different bulk storage facilities. The service

29 On 13 August 2014, Shell's Australian downstream businesses (excluding aviation) were sold to Vitol to operate under a new name, Viva Energy Australia.

30 Approved purchasers contract distributors to carry the product from the storage terminal to fuel outlets.

fees (covering the additional costs of the production of LAF, as well as the transportation and storage) range from \$0.21 to \$0.94 per litre.

Distribution

1.19 The distribution of LAF is generally by road, with distributors purchasing the fuel from bulk storage terminals and transporting it to fuel outlets. The LAF supply is not easily adapted to the existing distribution channels due to the need for separate storage facilities and compartments in tankers, which result in increased cost. The logistical complexities of incorporating comparatively small volumes of LAF over vast distances in already established distribution routes has resulted, in the past, in lost efficiencies and higher costs for distributors. Prior to the availability of multiple bulk storage facilities, the Australian Government provided subsidies to distribution companies to offset the additional costs of transport to assist in delivering LAF to consumers at the same price as RULP.

1.20 In 2013–14, eight distributors were paid subsidies to transport LAF from the BP terminal in Largs North, South Australia to fuel outlets as far away as Palm Island in Queensland and Kalumburu in Western Australia. The established scale of subsidies ranges from \$0.08 to \$0.30 per litre, but distribution to some sites may attract a higher rate of subsidy. In special circumstances, subsidies up to \$0.61 per litre have been paid. Approximately \$2 million in distribution subsidies was paid in 2013–14. With bulk storage facilities in Darwin being completed in late October 2014, PM&C advised that the distribution subsidy arrangements are expected to be phased out during 2015 and that further subsidies would be considered on a case-by-case basis.

Storage

1.21 A necessary underpinning for efficient distribution of LAF is being able to access bulk storage facilities at key distribution points. Bulk storage allows shipments of LAF to be delivered and stored for routine deliveries to fuel outlets. Until late 2014, BP provided LAF through its own storage facilities in Largs North, South Australia and in Kalgoorlie, Western Australia. Expanding the supply of LAF into northern Australia under the contract with Shell (Viva Energy) required the provision of sufficient bulk storage in Darwin, Cape York and the Gulf of Carpentaria. The Government commenced negotiation for the establishment of key storage facilities in Darwin in August 2011 and the agreement with Vopak Terminal Darwin Pty Ltd (Vopak) was executed in December 2013 at a contracted cost of up to \$19.2 million. The major storage

facility in Darwin was completed in late October 2014 and became operational in November 2014. An example of a bulk storage tank is shown in Figure 1.3.

Figure 1.3: Bulk storage fuel tank



Source: Photo taken by ANAO, Botany, Sydney 2014.

Legislation

1.22 In targeted regional and remote areas where LAF has been rolled out, the majority of fuel outlets have participated voluntarily. Some outlets, however, have chosen not to stock the fuel, creating a potential supply pathway for RULP into vulnerable communities which may reduce the effectiveness of efforts to control petrol sniffing. In March 2012, a Private Member's Bill, the Low Aromatic Fuel Bill 2012, was passed by Parliament and received Royal Assent on 14 February 2013.³¹ The *Low Aromatic Fuel Act 2013* (the Act) provides the responsible Minister³² with discretionary powers to designate a fuel control area and to determine the requirements relating to the supply, transportation, possession and storage of fuel in those areas. The Act aims to promote the supply of LAF in designated areas by prohibiting the

31 This Bill was introduced by Senator Rachel Siewert, Australian Greens.

32 Currently, the Minister for Indigenous Affairs.

supply of RULP. Powers under the Act have not been used as at April 2015 and the PSS continues to operate on the basis of voluntary participation. PM&C advised that two outlets previously reluctant to participate in the PSS voluntarily switched to supplying LAF after the bill passed.

Previous reviews and evaluations of the Petrol Sniffing Strategy

1.23 Various aspects of the PSS have been reviewed since 2005. Two Senate Committees have reviewed the effectiveness of the PSS, once in 2006³³ and again in 2009.³⁴ As mentioned previously, DoHA commissioned the South Australian Centre for Economic Studies to undertake a cost benefit analysis of the introduction of legislation to mandate LAF.

1.24 Since 2005, a contracted research provider has periodically assessed a sample of communities for incidences of petrol sniffing.³⁵ The analysis conducted includes examining the contribution of LAF in reducing the incidence of petrol sniffing in specific communities. As well as continuing data collection, a whole of strategy evaluation was undertaken, with the final report released in 2013.³⁶ This evaluation considered the future directions of the PSS and made 12 recommendations. The management of relevant agreements for the supply and distribution of LAF was not included in previous evaluations.

Administrative role of the Department of the Prime Minister and Cabinet

1.25 PM&C is responsible for the implementation of the Australian Government components of the PSS, including providing advice and information on the strategy as requested by the Minister and the Parliament. With regard to the provision of LAF, PM&C's main functions include:

- managing the contracts for the production of LAF;

33 Senate Community Affairs References Committee, *Beyond Petrol Sniffing: Renewing Hope for Indigenous Communities*, Canberra, June 2006.

34 Senate Standing Committee on Community Affairs, *Grasping the Opportunity of Opal: Assessing the impact of the Petrol Sniffing Strategy*, Canberra, March 2009.

35 In 2005–06, 74 communities situated in remote Australia were surveyed to establish a baseline. In 2007–08, 20 communities were re-visited as part of an impact study. In 2011–12, 41 communities drawn from nine regions located in the Northern Territory, South Australia, Western Australia and Queensland were included in the data collection.

36 Origin Consulting, *Whole of Strategy Evaluation of the Petrol Sniffing Strategy: Future Directions for the PSS*, Final Report, January 2013.

- managing the subsidy agreements with petrol distributors;
- negotiating and managing the capital works agreement for the construction of the bulk storage facility in Darwin;
- preparing communities to receive LAF, including roll out activities;
- developing and managing the communication strategy; and
- managing the ongoing research and data collection for the PSS to assess the effectiveness of the provision of LAF.

1.26 Annual expenditure for the LAF component of the PSS over the last two financial years has been on average \$24 million. Expenditure for 2014–15 is also expected to be approximately \$24 million.

Audit objective, scope and criteria

1.27 The objective of the audit was to assess the effectiveness of the Department of the Prime Minister and Cabinet's management of initiatives to supply low aromatic fuel to Indigenous communities.

Scope

1.28 The audit focussed on the administration of arrangements to support the supply and distribution of LAF following the expansion announced in the 2010–11 Budget. In particular, the audit examined the procurement process conducted in 2011 for the production, transport to storage and storage of LAF which resulted in the contracts and agreements referred to in paragraphs 1.15–1.17 and 1.21. The audit also examined the monitoring and reporting arrangements for the PSS, particularly in relation to the supply of LAF.

Audit Criteria

1.29 To form a conclusion against the audit objective, the ANAO assessed whether the Department of the Prime Minister and Cabinet had:

- effective service delivery arrangements in place to supply LAF to identified Indigenous communities;
- effective arrangements to implement the expansion of the PSS; and
- effective arrangements in place to monitor the supply of LAF and assess the impact of its supply in line with the Government's expectations.

Methodology

1.30 The methodology encompassed analysing key documents, including relevant departmental and contract decisions, planning and monitoring documents, performance data collected by the department and agreements between PM&C and relevant providers. The audit team also interviewed PM&C staff responsible for the PSS and selected stakeholders.

1.31 The audit was conducted in accordance with the ANAO's Auditing Standards at a cost of \$421 360.

Report structure

1.32 The structure of the report is outlined in Table 1.2.

Table 1.2: Report structure

Chapter	Overview
Chapter Two Managing the Production and Supply Arrangements for Low Aromatic Fuel	This chapter examines PM&C's management arrangements for the production and supply of low aromatic fuel under the Petrol Sniffing Strategy.
Chapter Three Procuring the Production and Storage of Low Aromatic Fuel	This chapter discusses the procurements undertaken for production and storage of low aromatic fuel to expand the Petrol Sniffing Strategy.
Chapter Four Managing the Effectiveness of the Petrol Sniffing Strategy	This chapter discusses PM&C's arrangements to collect information to assess and report on the performance of the Petrol Sniffing Strategy.

Source: ANAO.

2. Managing the Production and Supply Arrangements for Low Aromatic Fuel

This chapter examines PM&C's management arrangements for the production and supply of low aromatic fuel under the Petrol Sniffing Strategy.

Introduction

The Petrol Sniffing Strategy

2.1 The objective of the Petrol Sniffing Strategy (PSS) is to reduce the incidence and impact of petrol sniffing. Since 2005–06, the key component of the PSS has been the supply of low aromatic fuel (LAF) to reduce or avoid outbreaks of petrol sniffing. This approach involves supplying LAF to fuel outlets in, and surrounding, vulnerable communities to provide a distance barrier for access to regular unleaded petrol (RULP).³⁷ This reduces the risk of vehicles containing RULP entering, or being accessible by, Indigenous communities which could lead to a petrol sniffing outbreak. Implementing the strategy involves the consultative and logistical arrangements to bring LAF to an identified area, and monitoring of contractual arrangements for supply. As at January 2015, 138 sites were receiving LAF, servicing 78 Indigenous communities. The administrative processes in place to manage the supply of LAF were developed within the former Department of Health and Ageing (DoHA) and have been maintained by the Department of the Prime Minister and Cabinet (PM&C).

Introducing LAF to identified communities

2.2 Communities identified to receive LAF are either located in target areas that were identified during the development of the PSS or are communities where there have been recent outbreaks of petrol sniffing, which then warrant the introduction of LAF. In either case, for LAF to be introduced there needs to be support from the community. Where there has been an outbreak, typically PM&C receives notification directly from stakeholders, or concerned

37 Fuel outlets can include petrol retailers, road houses, outback stations, community stores and council bowzers.

community members. Once a community or region is identified for the PSS, the process of introducing LAF commences. This usually begins with PM&C field staff visiting the communities for discussions with local stakeholders, including: community-based organisations; schools; police; local community leaders; and local councils, business associations and fuel outlets.

2.3 After the initial visit, planning then commences, including an assessment of the logistics required to have LAF delivered, general community agreement and whether the local fuel outlets will agree to stock LAF. PM&C has two staff working in the field with regional and remote communities to implement the PSS. The field staff develop a detailed plan which includes: demographic information about the community and the region, the fuel outlets encompassed within the area; the approach to providing LAF; communication strategies; and risk assessments.

2.4 The PSS is voluntary³⁸ with fuel outlets needing to agree to stock and sell LAF in lieu of RULP before sites can participate. Some fuel outlets choose not to sell LAF, which has the potential to reduce the effectiveness of the strategy. Research undertaken in 2008 indicated that there was a 'statistically significant relationship between the distance of each community to the nearest [RULP] outlet and the size of the decrease in the prevalence of sniffing ...'³⁹ Even though LAF may be available in a community and in some neighbouring fuel outlets, RULP from other sites can on occasion enter communities and trigger a petrol sniffing outbreak.

2.5 PM&C has little formal interaction with fuel outlets once LAF is stocked. Some promotional materials may be provided to fuel outlets, however, there is minimal departmental communication with outlets and acknowledgement of fuel outlets continued participation and support for the PSS is not currently part of the administration of the strategy. PM&C advised that sites are monitored through fuel deliveries and issues are followed up through the department's regional network. PM&C also advised that, where necessary, it maintains contact with community stakeholders, data collectors and other partners on the ground who maintain relationships with fuel outlets.

38 As discussed in paragraph 2.8 and 2.9, legislation in relation to low aromatic fuel has been in place since 2013, but the discretionary powers have not been used, as at April 2015.

39 d'Abbs P and Shaw G, *Executive Summary of the Evaluation of the Impact of Opal Fuel*, DoHA, 2008, p. 2.

Communications strategy 2014

2.6 In support of the voluntary approach for participation, the 2010–11 Budget announcement *Enhancing the Supply and Uptake of Opal Fuel*, which provided funding for an expansion of the strategy, also included funding for the establishment of a communication strategy to inform the community on the use of LAF. As discussed later in paragraph 2.35, the expansion of the roll out of LAF was delayed and, as a result, the release of the communications strategy was aligned with the timing of the bulk storage in Darwin becoming operational in late 2014. In September 2014, PM&C put in place its ‘Rollout of Low Aromatic Unleaded Fuel Communications Implementation Plan 2014–15’ to support the expanded roll out of LAF in northern Australia. The communication strategy is supported by research into the various groups affected by the introduction of LAF, including tourists, Indigenous and non-Indigenous community members, motorist associations and other professional bodies. The plan explains that negative perceptions about LAF have existed for some time and seeks to address these by focusing on the key concerns for most consumers, such as price equivalence to RULP and performance in engines. The communication plan is a necessary foundation for the expansion of LAF as it assists in educating key stakeholders and the public about the PSS and the use of LAF.

Low Aromatic Fuel Act 2013

2.7 Although a voluntary approach to the stocking of LAF has been adopted, during 2006–08 the then Department of Health and Ageing (DoHA) considered the option of using legislation to enable the Australian Government to regulate the sale of RULP and mandate the use of LAF. In 2008, DoHA decided to examine the costs and benefits of enforcing the sale of LAF through legislation and commissioned the South Australian Centre for Economic Studies to undertake analysis. The report, *Cost Benefit Analysis of Legislation to Mandate the Supply of Opal Fuel in Regions of Australia*, was released in January 2010. The report included an examination of which jurisdiction was better placed to legislate, with strong support for the Commonwealth to do so, and identified a range of practical implementation considerations. The researchers modelled the benefits of a ban noting that ‘... the ban on RULP would have a net benefit so

long as it reduced sniffing by at least 19 per cent from current [2009] levels.⁴⁰ The then government decided not to proceed with introducing legislation.

2.8 In response to concerns about continued petrol sniffing, a Private Member's Bill⁴¹ was introduced in March 2012 to Parliament. The Low Aromatic Fuel Bill 2012 sought to regulate the supply of LAF in certain areas and received Royal Assent on 14 February 2013. The *Low Aromatic Fuel Act 2013* (the Act) is discretionary legislation which requires the responsible Minister to take specific actions before fuel can be regulated in a particular area. To exercise power under the Act, the Minister would need to develop a legislative instrument, which would define a LAF area or 'Fuel Control Area'. The legislation requires adequate consultation and outlines the groups of people to be consulted.⁴² PM&C has developed draft guidelines which describe the circumstances when the legislation could be used, if the Minister so desired.

2.9 Powers under the Act have not been used as at April 2015, however, PM&C advised that two outlets previously reluctant to participate in the PSS voluntarily switched to supplying LAF after the bill passed. PM&C continues to seek voluntary agreement from outlets to stock LAF and could consider refinement of its approach to better focus on fuel outlets and their voluntary participation as well as their ongoing involvement in the strategy.

Administration of the LAF element of the Petrol Sniffing Strategy

2.10 As discussed in paragraph 1.25, administration of the LAF component of the PSS includes PM&C managing contracts and payments to fuel producers for the production and supply of LAF. PM&C also has oversight of agreements with fuel distributors and monitors the supply and distribution of LAF. PM&C's administrative processes to support the provision of LAF are discussed in the following sections. In relation to the production contracts,

40 South Australian Centre for Economic Studies, *Cost Benefit Analysis of Legislation to Mandate the Supply of Opal Fuel in Regions of Australia*, Department of Health and Ageing, January 2010, pp. viii, ix and 112, available from <<http://www.health.gov.au/internet/stoppetrolsniffing/publishing.nsf/Content/sniffing-pubs-opalcost-toc>> [accessed 24 September 2014]. The cost benefit analysis contained modelling of the benefits of a ban of RULP with an assumed 80 per cent reduction in petrol sniffing based on the then current levels of sniffing.

41 This bill was introduced by Senator Rachel Siewert, Australian Greens.

42 Previous consultations undertaken by PM&C in a region would not count towards consultations for the purpose of the *Low Aromatic Fuel Act 2013*.

only the arrangements in place for BP were examined by the ANAO. As at December 2014, although production had commenced no invoicing had occurred under the contract with Viva Energy for the production of LAF.

Supply of LAF under the BP contract

Management arrangements

2.11 Between 2005 and November 2014, BP Australia (BP) was the sole producer of LAF in Australia. BP manufactures the fuel at its Kwinana Refinery near Perth, Western Australia, and sells LAF to distributors through its bulk storage facilities at Largs North, South Australia and Kalgoorlie, Western Australia. Under the current contract, BP is required to produce enough LAF to meet demand in the nominated regions of Central Australia, South Australia and the Western Australian Goldfields.⁴³ It is also required to have fuel available 95 per cent of the time for distribution. LAF must meet the *National Fuels Quality Standards Act 2000* for RULP in accordance with industry best practice and BP is to provide ongoing assurance of the quality of LAF produced. In its August 2013 annual report to PM&C, as required by the contract, BP reported that LAF had been tested four times during the year. However, BP has not reported on the testing since that time. PM&C advised the ANAO that it will require BP to include information on the quality testing results in its regular contract reporting.

2.12 PM&C monitors the production and supply of LAF through reports provided by BP, which accompany the monthly invoices. These reports include information on the volume of LAF sold to each distributor, as well as providing stock on hand figures for its two bulk storage facilities and refinery. Management arrangements with BP include regular teleconferences to discuss issues as well as ad hoc contact to address matters that arise.

Invoice processing for BP

2.13 Under the contract, BP must supply a correctly rendered tax invoice each month in order to be paid. The invoice must be accompanied by an operational report which is to include details on the volume sold, date of sale, distributor details, and total fee amount claimed. In addition, BP provides half yearly reports outlining technical advice provided, logistical assistance to government and industry stakeholders and marketing and communications activities.

43 BP was also required to supply LAF to sites in northern Australia under transition arrangements. Viva Energy commenced supplying LAF in northern Australia in November 2014.

2.14 PM&C creates purchase orders to establish an annual ceiling on expenditure for the BP contract, which is calculated at approximately a quarter of the total contract amount of \$21.1 million. In 2013–14, the annual amount committed was \$4.9 million. Actual expenditure for that year was \$3.9 million. Payments over the annual estimated amount would require additional approval from the delegate and a variation to the original purchase order. In effect, the monetary limit established by the purchase order acts as an overarching payment control mechanism, limiting routine payments to a set amount for the year.

2.15 As LAF consumption is demand driven, estimates are needed to first establish the volume required and then the associated subsidy costs for financial and logistical purposes. The estimated and actual annual costs between 2009–10 to 2013–14 are shown in Table 2.1.

Table 2.1: Forecast and actual LAF production subsidies 2009–10 to 2013–14

Financial year	Estimate \$ (million)	Actual \$ (million)
2009–10	7.2	5.9
2010–11	8.0	4.9
2011–12	8.5	4.6
2012–13	6.5	4.2
2013–14	4.9	3.9

Source: ANAO from analysis of PM&C information.

2.16 In 2010–11, additional funding was committed to expand the PSS. DoHA increased the estimated volume over the following years in anticipation of a major expansion which would bring LAF to new sites. The expansion was, however, delayed and the overall downward trend in annual expenditure as shown in Table 2.1 is a result of several factors including a decrease in volume produced and reductions in the subsidy amounts paid to BP (paragraph 1.14 refers).

2.17 The current contract does not require BP to produce more than the agreed amount of 24.6 megalitres per year. Monthly analysis of the invoices and accompanying reports allows PM&C to anticipate whether more funds will be required as well as monitoring volumes of LAF produced and distributed.

2.18 Payments to BP for the LAF produced are generally made monthly in arrears once an invoice is received, validated and then approved for payment. Validation of invoices relies on the operational report, which specifies the

volume of LAF sold and each distributor's details along with individual invoice numbers and amounts. In turn, distributors also invoice PM&C to receive a subsidy and nominal reconciliations are carried out over the financial year using the volumes distributed.

Management of distribution arrangements

2.19 LAF is sold in relatively small volumes and is delivered to outlets in remote areas which are often difficult to access. As such, distributing LAF requires special arrangements that differ from the distribution of other fuels. Distributors generally carry several grades of fuel in a load, the volume of which is calculated to provide the greatest economy per delivery. The introduction of a new grade of fuel to the supply chain can create inefficiencies and some challenges for fuel distributors. Prior to the introduction of LAF, the Australian Government provided subsidies to fuel sites supplying Avgas in participating communities. These subsidy arrangements were continued for LAF with the subsidy being paid directly to distributors on a cents per litre basis to help meet the additional costs associated with the distribution of LAF. As a result of the establishment of additional bulk storage facilities in Darwin, Townsville and Weipa, PM&C anticipates that subsidies to distributors will be phased out during 2015, with further subsidies considered on a case-by-case basis.

2.20 Not all distribution companies received the PSS distribution subsidy, as only those that were required to travel out of normal routes or extended distances were eligible. To receive a subsidy, a fuel distribution company had to be delivering to an area designated as attracting a subsidy (refer Figure 2.1). The company then needed to enter into a subsidy agreement and supply information about LAF deliveries and provide invoices on a monthly basis to receive the subsidy. Some distribution companies did not receive a subsidy for every LAF site they delivered to as their delivery sites were close to bulk storage terminals. In 2013–14, 47 per cent of LAF sites attracted a distribution subsidy.

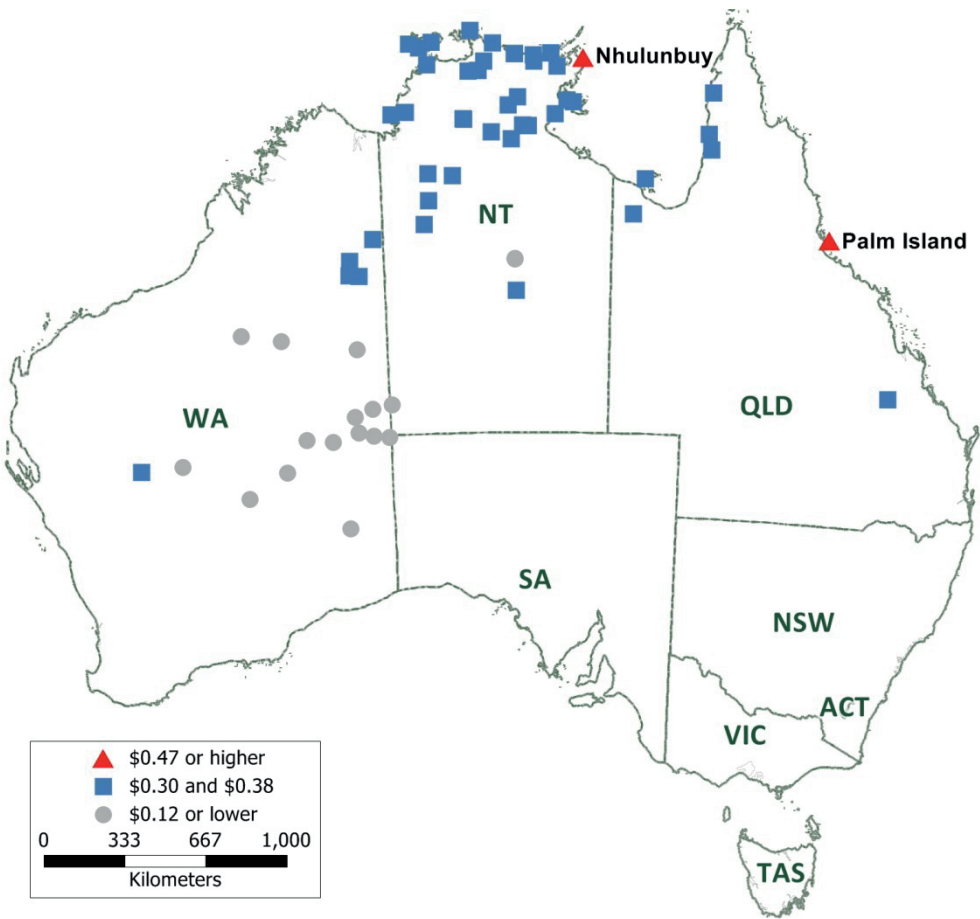
Subsidy rates for distribution

2.21 The scale of subsidies was based on the historical arrangements implemented under the Comgas Scheme from 1998–2005 and generally ranged from \$0.08 to \$0.30 per litre, depending on the location of the fuel outlet. Higher rates have been paid on a case-by-case basis. For example, distribution of LAF to Nhulunbuy required the fuel to travel overland from Adelaide to Darwin and then be shipped by barge. Under the 2014 distribution arrangements, the distributor received a \$0.47 per litre subsidy to get the fuel from Adelaide to Nhulunbuy, \$0.17 per litre more than most other sites in northern Australia.⁴⁴ Also in 2014, as an interim arrangement, LAF distribution to Palm Island attracted a \$0.61 per litre subsidy because the LAF was trucked from Largs North in South Australia to Townsville in Queensland and then shipped in containers to the island.⁴⁵ The subsidy amounts in place in 2013–14 and corresponding regions of Australia are shown in Figure 2.1.

44 Regular unleaded petrol would normally be sourced from Darwin. LAF had to be sourced from Largs North.

45 LAF is scheduled to be available from Townsville in 2015 and a subsidy is not expected to be paid.

Figure 2.1: Distribution subsidy amounts by region 2013–14



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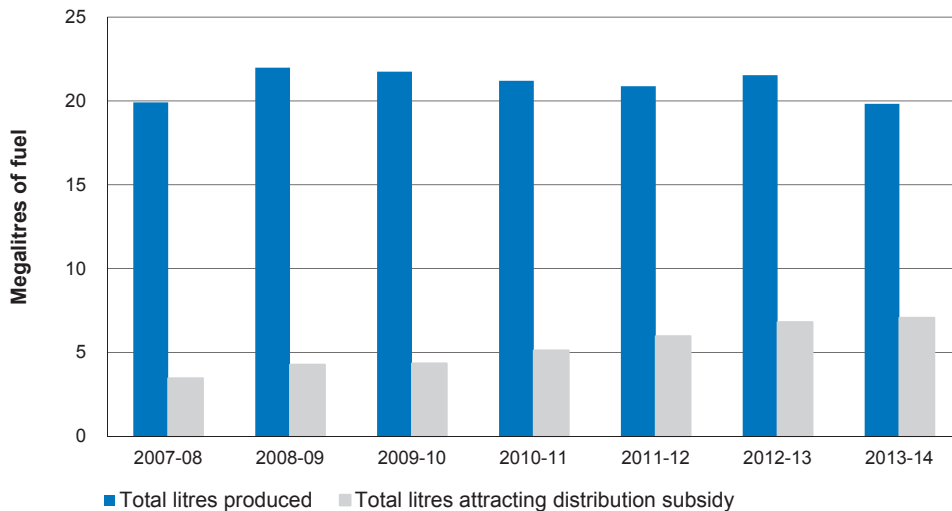
Source: ANAO analysis of PM&C data.

2.22 During 2013–14, PM&C had subsidy arrangements with eight distributors, a decrease in the number from previous years.⁴⁶ The department informed the ANAO that smaller distributors appeared to be ceasing to deliver to uneconomical sites with larger distributors picking up those delivery sites. While the volume of LAF produced has remained steady between 2007–08 and 2013–14, the subsidies paid to distributors rose from \$1 million in 2007–08 to approximately \$2 million in 2013–14. The department advised that the rise in subsidies paid to distributors was due to the expansion of the supply of LAF

46 These were distributors that PM&C entered into an agreement with to supply fuel. There was one distributor that distributed LAF but did not have an agreement as no subsidy was applicable in their delivery region and in this instance, no information was provided on LAF distributed.

over this period to sites located further away from the supply point. The department also advised that it intends to undertake further analysis of this issue in 2015. The volume of fuel produced, and the volume of fuel distributed which required a subsidy from 2007–08 to 2013–14 is shown in Figure 2.2.

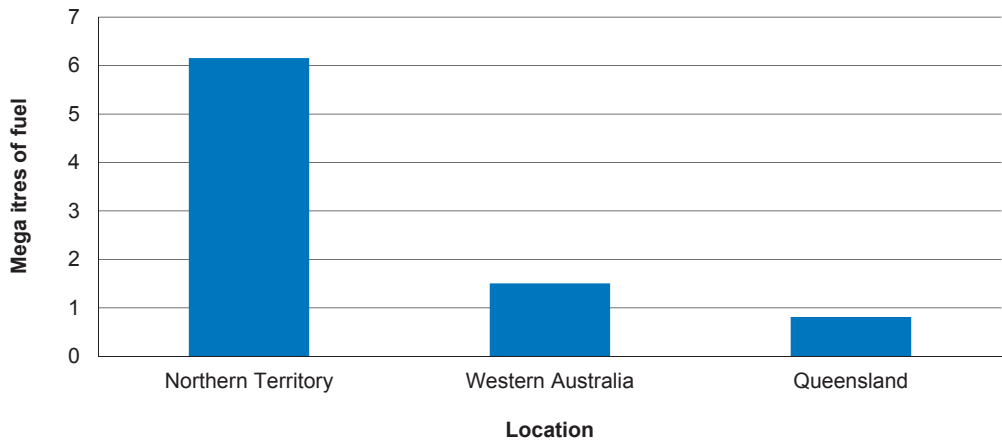
Figure 2.2: Volume of fuel produced and volume of fuel attracting a distribution subsidy, 2007–08 to 2013–14



Source: ANAO analysis of PM&C information.

2.23 The majority of LAF sites that required a distribution subsidy in 2013–14 were in the Northern Territory, with lower volumes of LAF requiring subsidies in Western Australia and Queensland. The volume of fuel requiring a distribution subsidy by location in 2013–14 is shown in Figure 2.3.

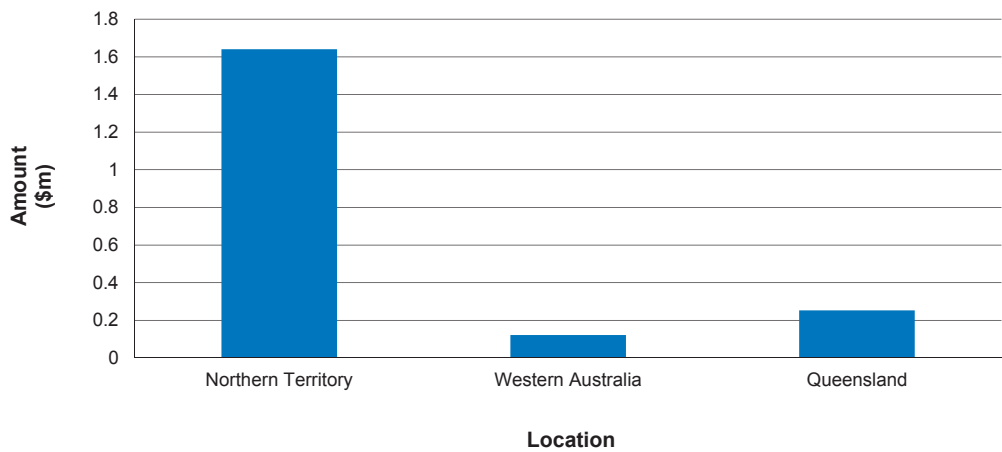
Figure 2.3: Volume of fuel that required a distribution subsidy, by location in 2013–14



Source: ANAO analysis of PM&C information.

2.24 PM&C spent approximately \$1.6 million subsidising the distribution costs to supply LAF to around 42 sites in the Northern Territory. The spread of distribution costs between locations is shown in Figure 2.4. LAF distributed to Western Australia and Queensland also attracted a distribution subsidy, and although Western Australia received a higher volume of LAF across the 15 sites that attracted a subsidy, the sites in Western Australia were generally closer to the distribution point. Accordingly, the distribution subsidies were lower.

Figure 2.4: Distribution costs by location, 2013–14



Source: ANAO analysis of PM&C information.

Distribution agreements

2.25 Until 2015, distribution agreements were entered into on an annual basis, which meant that distribution companies had to re-sign agreements to continue to access the subsidy. While the rate of subsidy did not change, it was possible that new sites could be added to a distributor's approved delivery list. Multi-year agreements may have reduced the administrative effort for distribution companies but PM&C advised that annual agreements provided more flexibility to revise the subsidy arrangements when required.

Monitoring the supply and distribution of LAF

2.26 A key additional benefit of PM&C's agreements with fuel distribution companies is the supply of information on the volume of fuel supplied and to which sites. For example, in 2013–14, distributors had to complete a distributor statement and submit this with the invoice for payment. The distributor statement is a template pre-populated with the approved PSS site names and corresponding subsidy amounts applicable to that distributor. Each month the distributor supplied the details of sales to respective sites, including document numbers, date of sales and volume of delivery along with a tax invoice.

2.27 As well as acting as a payment support mechanism, this data is useful for oversight of the PSS and PM&C compares the total volume of fuel produced to the amount distributed in a financial year. The information provided on volumes of LAF delivered is also useful for estimating future demand and for the monitoring the continued participation of fuel outlets so that if a fuel outlet did not receive a delivery of LAF over a period of time, the department has the capacity to follow up. For example, an outbreak of petrol sniffing may be traced to a site that has stopped supplying LAF. In August 2014, PM&C wrote to distributors regarding the potential changes to the subsidy arrangements once the new bulk storage tank in Darwin became operational. Following on from its correspondence to distributors, PM&C advised that the distribution subsidy is expected to cease in early 2015. Once the subsidy arrangement ceases PM&C will no longer readily receive information about distribution of LAF and the participation of fuel outlets.

Expansion of the Petrol Sniffing Strategy

2.28 In the 2010–11 Federal Budget, the Government made available an additional \$38.5 million over four years (2010–14) to enable increased production of LAF and to provide additional storage capacity in order to support an expansion in the supply of LAF to 39 targeted sites covering 11 communities, mainly in northern Australia.⁴⁷ The additional funding across the four years 2010–14 is set out in Table 2.2.

Table 2.2: Budget allocation for the expansion of low aromatic fuel, 2010–11 Budget

	2010–11	2011–12	2012–13	2013–14	Total
Administered	5 210 000	7 444 000	11 513 000	11 661 000	35 828 000
Departmental	781 000	715 000	616 000	561 000	2 673 000
Total	5 991 000	8 159 000	12 129 000	12 222 000	38 501 000

Source: *Health and Ageing Portfolio Budget Statement, 2010–11*, p. 45.

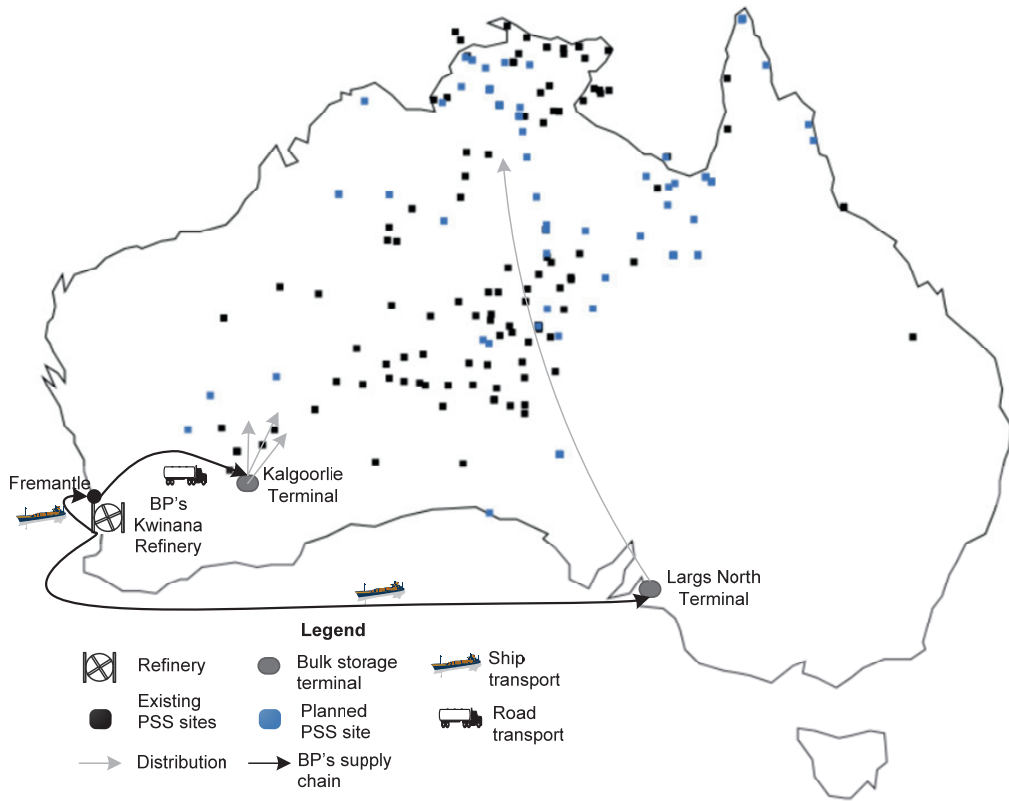
Development of additional bulk storage facilities

2.29 From 2006 to 2014, the supply chain to provide LAF to northern Australia involved distributors collecting LAF from the BP storage terminal at Largs North, South Australia and transporting the fuel long distances by road. Largs North had been the primary distribution point, selling 175 megalitres of LAF between 2005–14. However, fuel producers had raised concerns about the safety of transporting the fuel such long distances on a regular basis. Other considerations in transporting the LAF from southern Australia included the security of the supply chain, as increasing the length of the supply chain exposes distribution companies to a higher risk of stock running out.

2.30 A map of the distribution arrangements for LAF to December 2014 is shown at Figure 2.5. LAF was typically collected from Largs North in South Australia and transported by road to Alice Springs and Darwin in the Northern Territory before being distributed in smaller amounts to remote areas.

47 Australian Government, *Department of Health and Ageing Budget Measures 2010–11*, p. 45.

Figure 2.5: Distribution arrangements to supply targeted communities in northern Australia until December 2014



Source: ANAO analysis of PM&C information.

2.31 The barrier posed by limited storage facilities was a finding of a Senate Inquiry in 2009 into petrol sniffing, which included an examination of the progress of the provision of LAF. The inquiry found that:

... without the construction of a dedicated bulk storage facility in Darwin the costs and supply chain logistics associated with distributing [LAF] to northern Australia will be prohibitive and unnecessarily complicated.⁴⁸

2.32 In 2010, another report commissioned by DoHA recommended that an additional bulk storage site in Darwin was needed to make LAF more accessible to sites that would ordinarily source other fuel grades from

48 Standing Committee on Community Affairs, *Grasping the opportunity of Opal: Assessing the impact of Petrol Sniffing*, March 2009, p. 56.

Darwin.⁴⁹ Establishing a bulk storage facility for LAF in Darwin would also reduce the need for the distribution subsidies as DoHA considered that the additional costs associated with the bulk storage of LAF closer to sites in northern Australia would be offset by lower distribution fees associated with transporting LAF directly from Adelaide.

2.33 After consultation with industry, DoHA identified that Darwin was the best location for bulk storage of LAF as it was the main fuel distribution hub for northern Australia and accessible by both land and sea. The bulk storage fuel terminal is owned by an independent company that stores fuel for all fuel companies operating in the region. It was also recognised that smaller storage facilities were needed in the Gulf of Carpentaria and Cape York.

2.34 In the seven years between 2007–08 and 2013–14, \$11.2 million was paid in distribution subsidies, or an average of \$1.6 million per year. In 2011, DoHA anticipated that the cost of a new five million litre bulk storage tank in Darwin would range from \$6.2 to \$12.9 million.

Expansion of the PSS

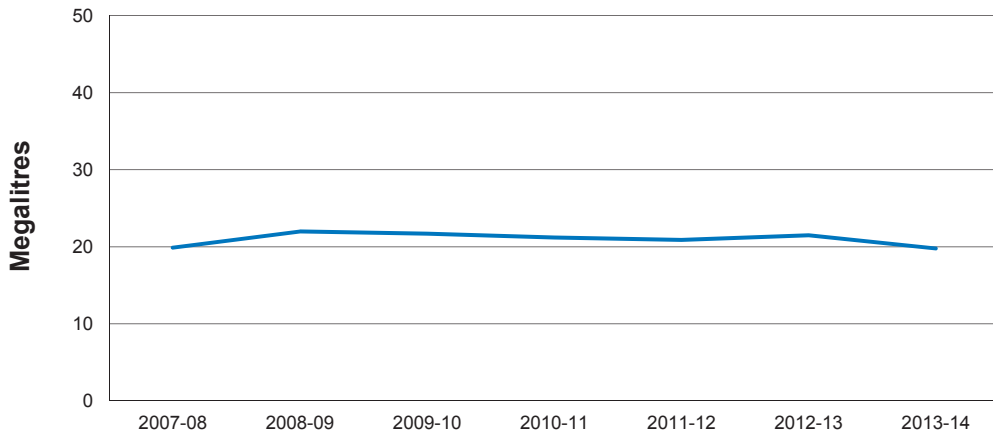
2.35 Between 2010–11 and January 2015, 32 sites joined the PSS where there was a community need and where logistical arrangements for supply could be satisfied. Four of these 32 sites were among the 39 sites targeted as part of the expansion in the 2010–11 Budget measure. The remaining 35 sites, which were delayed because storage facilities in northern Australia had not been constructed, are expected to receive LAF during 2015. Of the 11 communities targeted in the 2010–11 Budget measure, three are scheduled to receive LAF during 2015. In 2013–14 nine sites previously participating in the PSS chose not to continue to supply LAF. PM&C advised that two of these sites switched to selling only premium unleaded and diesel fuel.

2.36 While the number of sites receiving LAF from 2010–11 increased, the annual volume of production of LAF largely remained stable, with a slight reduction in 2013–14 to below the 2007–08 levels. This indicates that some sites may be selling less LAF. The average production since 2007–08 was 21 megalitres per annum. No targets have been set in relation to the volume of LAF produced

49 South Australian Centre for Economic Studies, *Cost Benefit Analysis of Legislation to Mandate the Supply of Opal Fuel in Regions of Australia*, p. 6 [Internet], DoHA, available from <<http://www.health.gov.au/internet/stoppetrolsniffing/publishing.nsf/Content/sniffing-pubs-opalcost-toc>> [accessed 24 September 2014].

and distributed, although contracts with LAF producers signed in 2012 allow for an annual production of up to 53 megalitres. The volume of LAF produced from 2007–08 to 2013–14 is shown at Figure 2.6.

Figure 2.6: Volume of LAF produced from 2007–08 to 2013–14



Source: ANAO analysis of PM&C information.

2.37 The volume produced for 2007–08 to 2013–14 along with the corresponding production and distribution subsidies is shown in Table 2.3. Over the period 2007–08 to 2013–14, the cost to the Australian Government for both production and distribution subsidies was \$45.9 million, or approximately \$0.31 per litre. As the Darwin bulk storage facility became operational in November 2014, additional production of LAF commenced. While there are no targets set for the volume of LAF, the contracts in place allow for annual production to increase a further 28.6 megalitres bringing contracted maximum volume to 53.2 megalitres per year.

Table 2.3: LAF production volume and subsidies 2007–08 to 2013–14⁵⁰

Year	Megalitres	Production Subsidy \$ (million)	Distribution Subsidy \$ (million)	Total Subsidy \$ (million)
2007–08	19.9	5.2	1.0	6.2
2008–09	22.0	5.9	1.3	7.2
2009–10	21.7	5.9	1.5	7.4
2010–11	21.2	4.9	1.6	6.5
2011–12	20.9	4.6	1.9	6.5
2012–13	21.5	4.2	2.0	6.2
2013–14	19.8	3.9	2.0	5.9
Total	147.0	34.6	11.3	45.9

Source: ANAO analysis of PM&C information.

Conclusion

2.38 To support the supply of LAF, PM&C has maintained appropriate administrative arrangements. These arrangements were largely developed by the former DoHA and adopted by PM&C following the transfer of Indigenous program responsibilities in September 2013. These arrangements provide for the introduction of LAF into communities, including the development of plans that identify the geographic boundaries of the community, the key stakeholders and other relevant information. With two field staff responsible for this aspect of the strategy, PM&C has only a limited ability to maintain contact with fuel outlets once LAF has been rolled out, even though their continued participation is important to the success of the PSS.

2.39 The processes in place to manage the contracts for production and distribution of LAF are largely sound and allow for the supply of LAF to participating sites. Information gathered from monitoring existing contracts for LAF provide PM&C with valuable data on the reach of the PSS, including oversight of where LAF is available and the volumes provided. This information is also used for planning and budgeting purposes.

50 BP lowered the subsidy from 27 to 22 cents from 1 September 2010. The figures in the table have been rounded.

2.40 Overall, the volume of LAF production has largely remained stable over the life of the PSS, with 21 megalitres on average supplied per annum. While contracts signed in 2012 have provision for annual production of up to 53 megalitres of LAF, targets are not used for monitoring the performance of the PSS. From an initial 41 sites in June 2005, the strategy expanded and, as at January 2015, LAF was available in 138 sites associated with 78 Indigenous communities in Western Australia, Queensland, South Australia and the Northern Territory. The slow progress in establishing the bulk storage facility in Darwin has limited the operation of the contract to increase production and delayed the introduction of LAF to 35 of the 39 targeted sites identified in the 2010–11 Budget announcement *Enhancing the Supply and Uptake of Opal Fuel*. Since 2010–11, 32 fuel outlets have joined the PSS, four of which were among the 39 targeted sites. Conversely, in 2013–14 nine sites stopped receiving LAF. PM&C advised that the department will follow up with these fuel outlets to determine the reasons why they are no longer receiving LAF. With the expansion of the PSS now to occur mainly in 2015, PM&C has published a broad timetable for the supply of LAF to identified areas, which includes the remaining 35 sites.

3. Procuring the Production and Storage of Low Aromatic Fuel

This chapter discusses the procurements undertaken for production and storage of low aromatic fuel to expand the Petrol Sniffing Strategy.

Introduction

3.1 In 2010–11, the Australian Government allocated \$38.5 million over four years to expand the supply of low aromatic fuel (LAF), with funding allocated for the production of additional LAF and for the establishment of appropriate bulk storage facilities in northern Australia. At the time of the Budget announcement, there was only one producer of LAF to supply the country and the lack of bulk storage facilities in northern Australia meant that LAF had to be brought in by road over long distances. The Budget announcement outlined that an additional subsidy per litre was to be paid to the manufacturer to cover the increased costs associated with the expanded distribution, including the construction of bulk storage facilities in northern Australia.

3.2 The then Department of Health and Ageing (DoHA) was responsible for managing the provision of LAF and in late 2010 it decided that a procurement for production and storage of LAF would replace the previous grant arrangement with BP Australia Pty Ltd (BP). The procurement process commenced in January 2011 and was completed by DoHA in 2012. During the procurement process in August 2011, the Darwin storage aspects were removed from the tender process and managed by direct negotiation with a provider. The negotiation for the bulk storage was commenced by DoHA but was not completed prior to responsibility for the Petrol Sniffing Strategy (PSS) transferring to the Department of the Prime Minister and Cabinet (PM&C) in 2013.

Procuring the supply of low aromatic fuel

3.3 To achieve efficiency and effectiveness in procurement, it is important that prior to commencing the procurement due consideration is given to the procurement need and process, including the value of the procurement, the level of risk and prevailing market circumstances. This assists the selection of an appropriate procurement method.

3.4 DoHA opted for a two-staged procurement process starting with a request for information (RFI) that was open to the market, and proceeding to a request for tender (RFT), subject to there being sufficient interest and satisfactory assessment of the RFIs received. This method of procurement results in a 'select tender', whereby those responding to an approach to market, and being assessed as suitable, are invited to make submissions.⁵¹ This approach was approved by the former Minister for Indigenous Health⁵² in October 2010.

3.5 The RFI was released on 5 January 2011 with a closing date of 2 February 2011. The objective of the RFI was to: investigate market capability for producing LAF; understand the logistics of how the fuel could be transported to storage; and establish the best locations for bulk storage facilities.⁵³ In particular, the RFI sought information in relation to: the production of LAF; the provision of bulk storage options, in particular in northern Australia; and the transportation of LAF to the storage sites.⁵⁴ BP and The Shell Company Australia Ltd (Shell, now known as Viva Energy Australia) responded to the RFI and were assessed as being compliant with the mandatory requirements. At this point the department decided to proceed with the RFT and invited both companies to submit tenders.

3.6 The objective of the tender was clearly stated in the tender document as:

... to engage one or more petroleum companies to assist communities to reduce petrol sniffing by producing and storing low aromatic fuel for some specific parts of regional and remote Australia.⁵⁵

3.7 The RFT was released on 13 May 2011 and closed on 14 June 2011. The RFT document outlined the areas to be addressed by tenderers and included the nominated regions and estimated annual volume requirements, which are set out in Table 3.1.

51 Under the Commonwealth Procurement Guidelines that were applicable in 2011, DoHA used a 'select tender.' Under the *Commonwealth Procurement Rules* (2014), this approach to market is termed a 'prequalified tender.'

52 The Hon Warren Snowdon MP was the Minister for Indigenous Health from 9 June 2009 until 18 September 2013.

53 Department of Health and Ageing, *Request for Information—New arrangements for the production and storage of low aromatic fuel*, RFI 232/1011, 5 January 2011, p. B3.

54 Department of Health and Ageing, *Request for Information—New arrangements for the production and storage of low aromatic fuel*, RFI 232/1011, 5 January 2011, pp. B3–B5.

55 Department of Health and Ageing, *Request for Tender—New arrangements for production, transportation to storage and storage of low aromatic fuel*, RFT 415/1011, 13 May 2011, p. B1.

Table 3.1: Scope of the Request for Tender

Regions to be supplied	Possible bulk storage facility	Estimated annual volume required in megalitres
Top End of the Northern Territory and East Kimberley	Darwin	Up to 14.3
Western Australian Goldfields	The department required the tenderers to propose the location for bulk storage to service this region	Up to 6.9
Gulf of Carpentaria region	Townsville, Mt Isa or Cloncurry—tenderers to advise of options	Up to 12.0
Cape York region	Weipa	Up to 2.3
South Australia and Central Australia, including parts of Western Australia and the Northern Territory	Adelaide	Up to 19.6

Source: Based on Annex H, DoHA Request for Tender document (415/1011), 2011.

3.8 Overall, the RFT documents satisfied the requirements of the relevant Commonwealth Procurement Guidelines then in place by clearly outlining the services to be delivered, providing guidance to the tenderers in preparing their responses and identifying the criteria against which the tenders would be assessed.

3.9 Both tenderers presented a number of scenarios for supplying the different regions identified in the RFT. BP tendered for all regions, except the Gulf of Carpentaria and Shell tendered for all regions, except the Western Australian Goldfields. BP's tender centred on its established supply chain with LAF produced at its Kwinana Refinery in Western Australia and shipped to its bulk storage facility in Largs North, South Australia. Shell's submission anticipated producing the fuel in Singapore and shipping it to the proposed bulk storage facility in Darwin for distribution in northern Australia, with secondary storage sites in Weipa and Mt Isa. Following analysis of the tenders, DoHA assessed BP's tender as offering best value for money for the southern half of the country, covering the Central Desert region, South Australia and the Western Australian Goldfields. The resulting contract with BP offered a saving of around \$129 360 per year from the previous agreement. DoHA concluded that Shell represented the best value for money to supply the Top End of the Northern Territory, East Kimberley, Cape York and the Gulf of Carpentaria.

3.10 One of the main complexities in assessing the fuel producers' tenders was establishing the cost involved in accessing bulk storage in Darwin, both as a

capital cost and as a throughput fee for the storage and handling as the facility did not yet exist. In March 2011, to assist in assessing costs DoHA had commissioned a concept study directly from Vopak Terminal Darwin Pty Ltd (Vopak)⁵⁶ to determine the feasibility and indicative cost of securing a five million litre tank. The concept study was completed in May 2011 and the costings were shared with the tenderers thus forming the basis of the tenderers' one-off capital costs. Both tenderers quoted a one off capital cost and Shell also included indicative costs on a per litre basis, based on volume of LAF sold.

3.11 The establishment of suitable bulk storage arrangements to support the supply of LAF to northern Australia was a key inclusion in both the RFI and RFT. Bulk storage was accordingly examined as part of the tender but the costs of the options provided were generally noted as 'indicative' and 'may increase'. As discussed further in paragraph 3.20, in mid-August 2011, following the assessment of the tenders but prior to the decision to enter negotiations with successful tenderers, DoHA decided that the department would be best placed to directly manage the capital works associated with the Darwin bulk storage facility. This decision involved paying for the construction up front rather than reimbursing the LAF producer for the capital costs as part of the price per litre of LAF as had been outlined in the 2010–11 Budget measure.

3.12 As DoHA had decided to negotiate directly with the bulk storage provider for the construction of a storage tank, it would have been appropriate to advise both tenderers of the change in approach and offer them the opportunity to resubmit their tenders if the change had a material effect on the assumptions supporting their bids. Furthermore, to support transparency, the basis for the decision, including the risks and options considered at the time could have been better documented by the delegate. Maintaining accountability and transparency is one of the key principles of the then Commonwealth Procurement Guidelines, requiring that decisions are '... documented, defensible and substantiated in accordance with legislation and Government policy'.⁵⁷ While the decision to exclude the bulk storage facility from the tender process was made internally in mid-August 2011, Shell was not advised until

56 Vopak operated the sole bulk storage terminal in Darwin.

57 Australian Government, *Commonwealth Procurement Guidelines*, Department of Finance and Deregulation, Canberra, December 2008, p. 17. The *Commonwealth Procurement Guidelines* (CPGs) were last updated in 2008 and then replaced by the *Commonwealth Procurement Rules* on 1 July 2012 which were updated on 1 July 2014. The emphasis on accountability and transparency has been maintained.

5 September 2011, despite being told its tender had been successful for the supply to northern Australia on 22 August 2011 and that Shell's tender was based around the Darwin storage option.

Entering into contracts for low aromatic fuel

BP Australia

3.13 BP's tender was successful in securing the production of LAF for supply to the Western Australian Goldfields, South Australia and central Australia, incorporating neighbouring areas in Western Australia, South Australia and the Northern Territory. The contract was valued at \$23.2 million (GST inclusive) over the four years 2012–13 to 2015–16 with an estimated volume of 24.6 megalitres per year. The contract was signed on 29 June 2012 and came into effect on 1 July 2012. Although BP's contract provides for a maximum of 24.6 megalitres per year, provision was made to supply an additional 2.4 megalitres of LAF during the transition period until Shell commenced production.

Kalgoorlie bulk storage terminal

3.14 In conjunction with the contract for LAF, DoHA entered into a second contract valued at \$3.9 million to upgrade BP's existing storage terminal in Kalgoorlie, Western Australia between November 2013 and October 2014. This terminal services the Western Australian Goldfields, the Pilbara and mid-west Western Australia. LAF is trucked to the terminal where distributors are able to purchase the LAF at terminal gate prices.

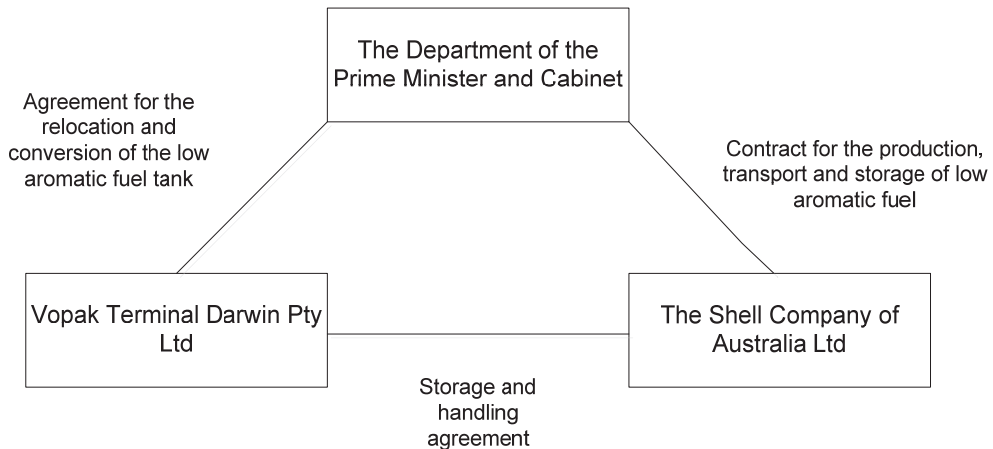
Shell (Viva Energy)

3.15 In October 2012, Shell⁵⁸ entered into a contract to supply 28.6 megalitres of LAF per year to northern Australia from 31 December 2013 until 30 June 2016. This contract was valued at \$41.8 million (GST inclusive). As noted in paragraph 3.1, supply to northern Australia was dependent on the establishment of bulk storage facilities in Darwin. As DoHA had yet to negotiate for the construction of the bulk storage facility in Darwin, the Shell contract was executed with a 'condition precedent' clause, with practical completion of the storage facility in Darwin required. If this condition was not

58 On 13 August 2014, Shell's downstream operations (excluding aviation) was acquired by Vitol. Shell is now known as Viva Energy Australia.

met by 31 December 2013, the contract would terminate, with neither party being liable. Responsibility for petrol sniffing initiatives transferred to PM&C in September 2013 and on 4 December 2013, PM&C and Shell varied the contract substituting this condition with an end date of 31 October 2014, with reasonable allowances for extension of time in the Vopak agreement. The variation also extended the initial four year term of the contract from 2016 to 2017. The relationships between the three parties are shown Figure 3.1.

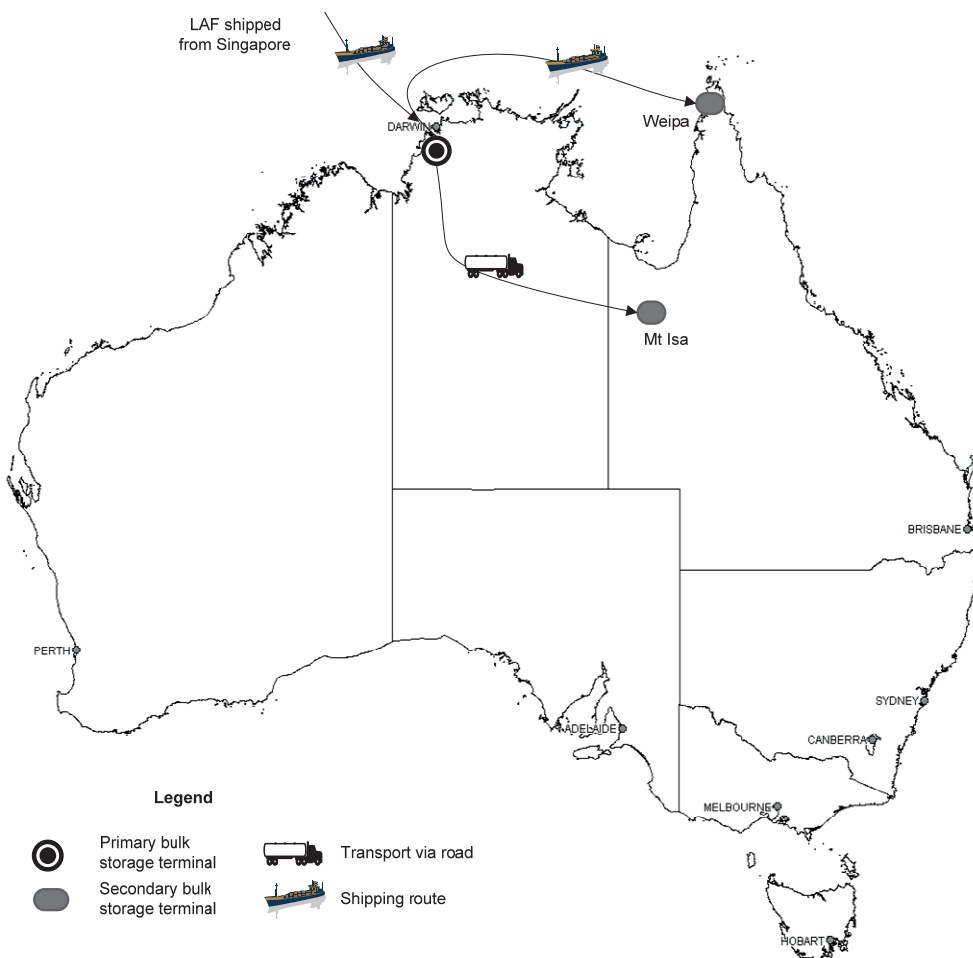
Figure 3.1: Relationship between the three parties in the bulk storage arrangement in Darwin



Source: ANAO analysis of PM&C information.

3.16 The original supply chain proposed by Shell was to have LAF produced in Singapore, shipped to Darwin for bulk storage, and then collected by distributors to supply the Top End of Northern Territory and East Kimberley. LAF was to have been transported from Darwin by road to secondary bulk storage sites in Mt Isa to service the Gulf of Carpentaria region and by ship to Weipa as the supply point for Cape York. Under this arrangement Darwin was to have been the main bulk storage site for the Top End and East Kimberley, as well as for Mt Isa and the Gulf of Carpentaria. The supply route is illustrated in Figure 3.2.

Figure 3.2: Original proposed supply route for LAF produced by Shell in 2012



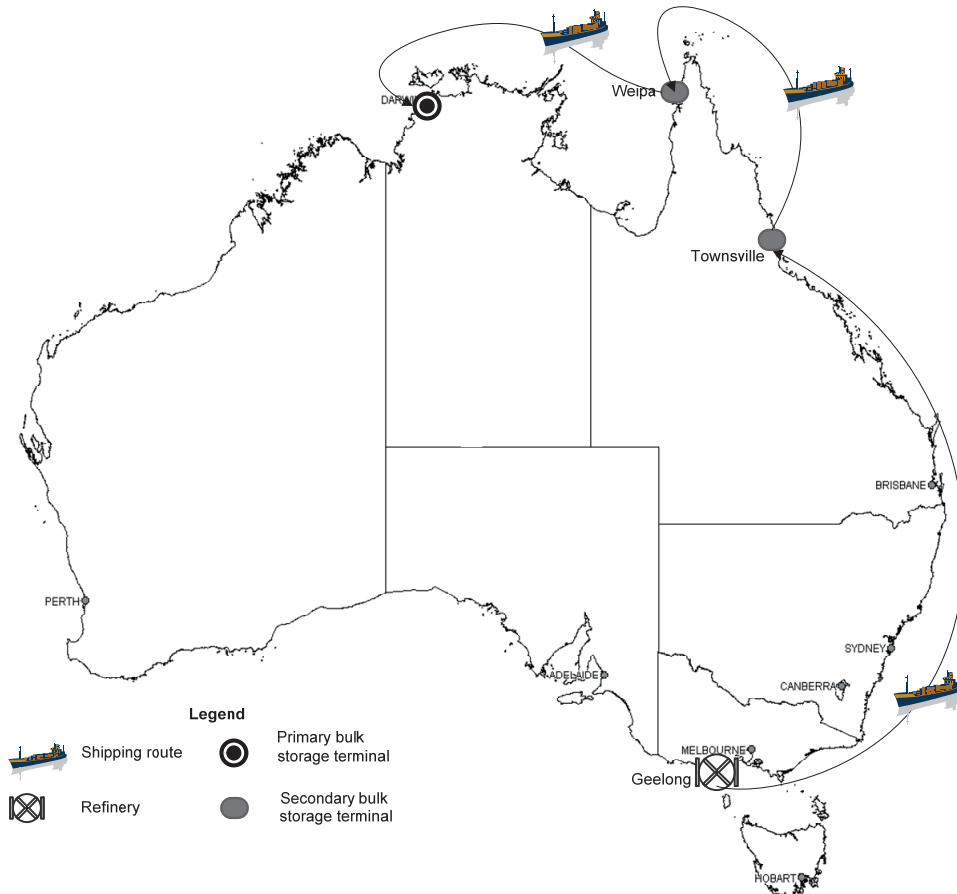
Source: ANAO analysis of PM&C information.

3.17 In November 2014, Viva Energy (formerly Shell) and PM&C agreed to a new supply arrangement where LAF would be produced in Geelong and shipped to the bulk storage terminals in Townsville and Darwin, with deliveries to Weipa from the Darwin terminal.⁵⁹ The new arrangement has reduced the volume of LAF transiting through Darwin, from 26.3 megalitres to an estimated 14.3 megalitres. This is because approximately 12 megalitres will

⁵⁹ Due to the size of the Weipa terminal there will be no direct deliveries from Geelong refinery. Also, depending on logistical requirement shipments from Geelong to Townsville and Darwin may not occur sequentially using a single vessel.

now be shipped to the Townsville facility to supply the Gulf of Carpentaria. As part of the consideration of the variation, PM&C undertook cost modelling of the proposed fees. The 14.3 megalitres estimated to transit through Darwin per year will incur up to \$3.9 million in fees. The new supply chain arrangements for LAF produced by Viva Energy are shown in Figure 3.3.

Figure 3.3: Revised supply route for LAF Viva Energy in November 2014



Source: ANAO analysis of PM&C information.

Establishment of bulk storage facilities

3.18 As part of initial information gathering for the procurement process, on 31 August 2010, DoHA held a roundtable with four of the major Australian fuel producers and distribution companies and Vopak, the company which

owns the bulk storage facility in Darwin, to discuss the available options. The meeting with key industry stakeholders confirmed that Darwin was the only viable location for bulk storage in northern Australia.

Concept study

3.19 As discussed in paragraph 3.10, DoHA entered discussions directly with Vopak to undertake a concept study in March 2011 to examine possible options for LAF storage. DoHA had requested preliminary drawings, 3D modelling and cost estimate on all the options. The resulting concept study report finalised in May 2011 proposed two options:

- a new tank; and
- reallocating a premium unleaded petrol (PULP) tank as an interim arrangement if the Government wanted LAF storage earlier.

Also included in the report were a number of other storage options and construction/conversion timeframes, ranging from 12–13 months for a new five megalitre tank and to six to seven months for the conversion of an existing three megalitre methanol tank.

The decision to negotiate directly with Vopak

3.20 In early to mid-August 2011 following the assessment of tenders, but prior to a final decision on the tender, DoHA decided to negotiate directly with Vopak for the construction of new storage facilities and commenced negotiations. Although a decision to negotiate with Vopak involved the appropriate delegate, the basis of that decision and any risks considered were poorly documented. Contemporaneous briefing materials provide some insight into DoHA's decision. For example, the assessment of the tenders identified an number of risks and uncertainties in relation to the development of the bulk storage facilities. Further, DoHA considered that the concept study estimate of \$9.6 million (plus or minus 35 per cent) for construction of the new tank, was an over-estimate with unreasonable risk premiums built in, and that it should be possible to negotiate lower costs for the facility during discussions with Vopak.

Negotiations for bulk storage

3.21 Once the decision was made in early to mid-August 2011 to negotiate directly with Vopak for the construction of the storage facility, other risks and issues relating to the project negotiation emerged. These included: the adequacy of technical expertise to support the department's negotiating team;

cultural and communication difficulties; disagreements about terms and conditions; and approval processes on both sides. These issues affected the negotiations and contributed to the delay in project commencement.⁶⁰

The interim storage solution

3.22 The cost of the new five megalitre tank was estimated to be \$9.6 million (plus or minus 35 per cent or between \$6.2 and \$12.9 million) with a projected construction timeframe of 12–13 months. The department recognised the need to construct a new tank, but acknowledging that this would take up to 13 months to complete, the department also decided to develop an interim storage tank so that LAF could be supplied in northern Australia in a shorter time frame. At the commencement of negotiations in August 2011, Vopak indicated it could not reallocate one of the existing PULP tanks to LAF and this interim option was revised to converting a three megalitre methanol tank, which was part of a non-operational biodiesel plant, at an estimated cost of \$4 million (plus or minus 35 per cent) with a construction timeframe of seven to eight months.

3.23 In August 2011, DoHA commenced negotiations for a service agreement covering the Front End Engineering and Design (FEED) study for the conversion of an existing tank as an interim solution so that LAF could be supplied in northern Australia by 1 July 2012.⁶¹ These negotiations were lengthy and agreement was not reached until May 2012. It had taken nine months from the commencement of negotiations to reach this point and the 1 July 2012 timeframe for the tank to be operational would not be met.

3.24 Shortly after executing the agreement for the FEED study, Vopak advised the department that it was close to finalising the sale of the biodiesel plant where the methanol tank was situated and that the sale may affect the tank's availability in the long term. The department questioned the value for money in continuing with the interim tank given uncertainty over tenure and

60 Vopak advised that specific examples of the issues encountered included: the need to mirror the capital works agreement with the subcontract for the construction of the tank, which involved a change of strategy from using multiple contractors to a general contractor; Vopak's internal approval processes; and the Federal election in 2013, which caused an additional four month delay in finalising the agreement.

61 The Front End Engineering Design study is the engineering work undertaken to develop engineering and technical documents for a construction project. The FEED includes the scope of works and project requirements to allow costs to be estimated within plus or minus 10 per cent and to support detailed engineering, procurement and construction for the project.

the potential costs. As a consequence, in June 2012 work was halted on the FEED while DoHA negotiated with Vopak about the availability of the methanol tank. Vopak provided satisfactory assurances to DoHA that the tank would be available for the interim period. At this time, Vopak also requested further consultation to decide on suitable facilities for the permanent storage arrangements.

3.25 At the end of this set of negotiations, it was agreed that an existing biodiesel tank would be converted as the permanent solution and that DoHA could have access to the three megalitre methanol tank until the permanent solution was available.⁶² DoHA sought the approval from the then Minister for Indigenous Health on two options, which were:

- proceed directly to the permanent solution; or
- proceed with the interim solution first and then the permanent solution.

3.26 There were two key issues in relation to these options. Firstly, the additional time it would take to establish the permanent solution compared to the interim solution, and secondly the proposed savings if the interim option was dropped. Option one was recommended by DoHA and the then Minister of Indigenous Health approved the decision on 23 July 2012 to proceed straight to the permanent solution. The main reasoning behind pursuing the permanent solution over the interim solution related to expected savings of \$1.9 million. In advising the Minister, DoHA supported the permanent solution and provided advice about not taking the interim option. This advice included an assessment of the advantages, disadvantages, risks and the corresponding mitigation strategies. The department acknowledged that the decision not to pursue the interim solution increased the delay in providing LAF to northern Australia as the permanent solution was expected to take longer.

3.27 In August 2012, Vopak advised that a substitute biodiesel tank to the one initially proposed would be better suited. That tank, however, needed to be relocated to within the industrial fuel terminal to meet fire and other safety requirements. The cost of relocation, approximately \$0.5 million, further

62 The proposed biodiesel tanks were situated within the boundaries of the biodiesel plant that was sold in 2012. However, Vopak still retained ownership of a number of the tanks. The biodiesel plant is physically contained within the boundaries of Vopak Darwin and is adjacent to Vopak's industrial fuel terminal.

reduced the estimated cost savings provided to the Minister. Vopak advised that while tanks had been relocated at its facilities overseas, it was the first time a tank would be moved by Vopak in Australia. The tank commenced its relocation in July 2014 and was completed during September 2014. A photo of the biodiesel tank while relocation was in progress in Darwin is shown in Figure 3.4.

Figure 3.4: Tank relocation, Darwin



Photo courtesy of PM&C and Vopak Terminal Darwin Pty Ltd.

3.28 The refurbishment and relocation of Darwin bulk storage tank was finally completed at the end of October 2014 with the first shipment of LAF delivered in mid-November. The total elapsed time taken for the establishment of the storage facility in Darwin was over two years, well beyond the initial target of July 2012 for an interim solution.⁶³ Most of this delay occurred in the negotiation phase with the construction time for refurbishing and relocating the biodiesel tank being six months at a contracted cost of up to \$19.2 million

⁶³ Negotiations commenced in August 2011, the contract was signed in December 2013 and the tank became operational in November 2014.

(including GST).⁶⁴ In addition to the capital cost, ongoing storage and handling costs are allowed for as part of the service fee to be levied by Viva Energy. Based on the current estimate of demand of 14.3 megalitres of LAF per annum, the storage and handling fee payable to Viva Energy would be \$3.9 million per annum.

Conclusion

3.29 To expand the availability of low aromatic fuel (LAF) to target regions in northern Australia in sufficient quantities, the former Department of Health and Ageing (DoHA) needed to increase production of LAF and secure suitable storage for the fuel in Darwin and other sites in northern Australia. The procurement process in 2011 allowed DoHA to test the market, and to potentially increase the production and supply of LAF. While the contracts were awarded in June 2012 to BP and October 2012 to Shell (now Viva Energy Australia), production of additional LAF by Shell was subject to establishing bulk storage arrangements in Darwin. Overall, the process undertaken to approach the market to source suppliers of LAF was reasonable. The assessment of the tenders was generally satisfactory, however, DoHA's subsequent decision to negotiate directly for the bulk storage facility was not communicated in a timely manner to the tenderers, even though one of the tenderers had framed its tender around the Darwin storage arrangements. Furthermore, to support consideration of the risks involved, DoHA's decision to directly negotiate with Vopak for the construction of the bulk storage could have been better documented.

3.30 Once the PSS transferred from DoHA in September 2013, PM&C was then responsible for continuing the negotiations with the contractor. In 2011, a new tank was estimated to cost between \$6.2 million and \$12.9 million, but after a complex and difficult negotiation, the department entered into a contract for up to \$19.2 million for the relocation and refurbishment of an existing biodiesel tank. Negotiations commenced in August 2011 and the storage facility became operational in November 2014, over two years later than initially proposed. As a result, the additional production of LAF anticipated by the Government did not occur in the expected timeframes.

64 The contract amount included provision for contingency payments and these were still in the process of being negotiated and paid at the time of the report publication.

4. Managing the Effectiveness of the Petrol Sniffing Strategy

This chapter discusses PM&C's arrangements to collect information to assess and report on the performance of the Petrol Sniffing Strategy.

Introduction

4.1 Performance monitoring and reporting is an integral part of sound public sector management. Performance reporting is intended to focus on the objectives of a funded activity, its resourcing, the deliverables it produces and the key performance indicators (KPIs) that measure effectiveness⁶⁵ and includes internal reporting to management and external reporting such as departmental annual reports and website publication.

4.2 The ANAO examined the approach taken by PM&C to monitor and report on the strategy's performance. This included examining PM&C's:

- performance reporting framework;
- collection of performance information; and
- reporting of performance information.

Performance reporting framework

4.3 To effectively assess performance, entities need to establish, and communicate clearly and consistently, the objective or expected outcomes of a funded activity. This includes having relevant targets and indicators against which delivery can be assessed. Performance reporting frameworks should also be supported by effective systems and practices to systematically monitor performance, capture a variety of relevant data, and facilitate accurate and reliable reporting.

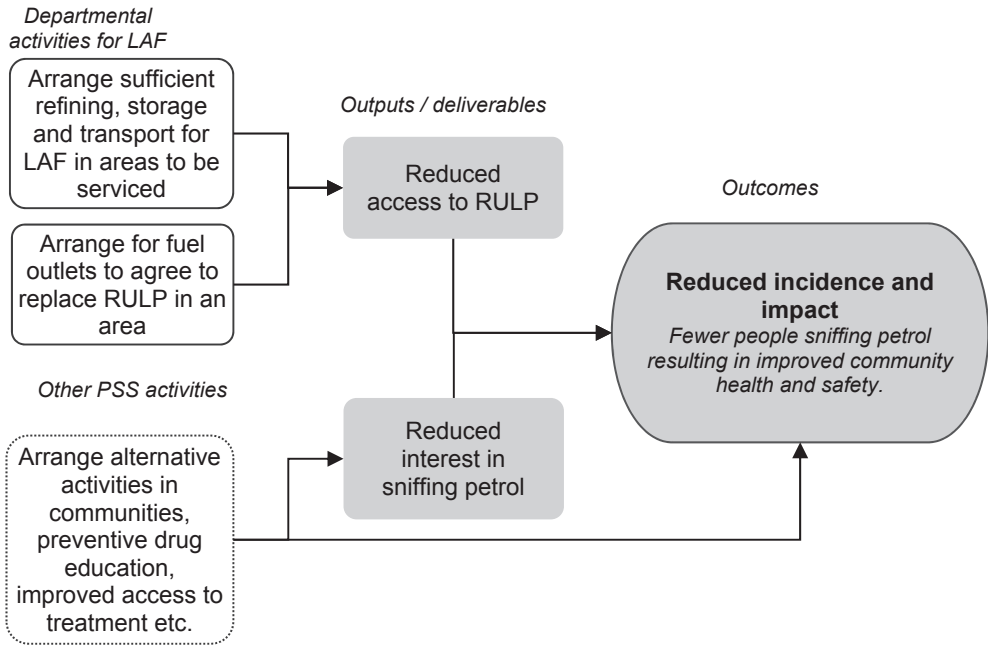
Identifying objectives

4.4 The overall objective of the PSS has been broadly described as reducing the incidence and impact of petrol sniffing. This overall objective is supported

65 ANAO Audit Report No.28 2012-13, *The Australian Government Performance Measurement and Reporting Framework: Pilot Project to Audit Key Performance Indicators*, Canberra, April 2013, p. 43.

by the components of the PSS Eight Point Plan (see paragraph 1.8) that aim to reduce the interest in petrol sniffing and by the LAF specific objective of reduced access to regular unleaded petrol (RULP). The design of the PSS acknowledges the limitations of a single approach and that other activities need to be undertaken in conjunction with the supply of LAF to successfully address the causes petrol sniffing. A summary of the intended results of providing LAF and other PSS activities is shown in Figure 4.1.

Figure 4.1: Intended results of providing LAF and other PSS activities



Source: ANAO, adapted from PM&C information.

Collecting performance information

4.5 Once an entity has defined objectives and strategies to achieve them, it is then important to have arrangements so that relevant data is collected which can be reliably used now and in the future to measure success. Within the areas where LAF is sold, data needs to be collected about both the grades of fuel available and Indigenous communities in order to assess the effect of making LAF available.

Information about petrol supply

4.6 Relevant information about petrol supply includes which types of fuel are stocked at fuel outlets within a defined distance of a PSS site, with details of geographic location and a history of changes over time. PM&C has relevant data about fuel outlets in areas where LAF is being supplied or is planned to be supplied. This information is held in an electronic spreadsheet; the data is generally derived from administrative data associated with the payment of transport subsidies, and from visits and contacts to regional and remote areas for planning purposes. The extent to which this data is relevant, well-defined, consistent and accessible is assessed in Table 4.1.

Table 4.1: Assessment of Petrol Sniffing Strategy related information on petrol supply

Characteristic	Suitability for management purposes	Suitability for broader use
Relevant: identified data will meet need	✓✓ Comprehensive set of data elements identified, including location coordinates.	✓ Including explicit data on the availability of RULP at sites, and clarifying the primary source of community information (some of which is held in the fuel outlet database, and some elsewhere) would improve the data set.
Well defined: to allow interpretation and re-use	✓✓ Data labels and local knowledge are sufficient for staff.	✗ Documented data definitions are needed to allow reliable use by others, including treatment of missing values and changes to counting rules over time.
Consistent: data recorded consistently	✓ The most important fields are consistent; there were some inconsistencies in data formats and between fields for individual sites.	✓ Minor data inconsistencies potentially complicate some broader usage.
Accessible: can be easily found and accessed	✓✓ Readily available, in a format allowing additional analysis by local staff, and for usage by nominated third parties.	✗ The data set is of likely interest for Indigenous health research but is not made visible on any public register; some minor refinements would be needed to segregate sensitive information prior to any limited or general release.

Source: ANAO analysis of PM&C's 'LAF database'.

Legend: ✗: not satisfactory ✓: generally satisfactory, with some scope for improvements ✓✓: satisfactory.

Information about Indigenous communities

4.7 Relevant information about Indigenous communities includes location, population, local fuel outlets, and incidences or prevalence of petrol sniffing. Some of this data is relatively straightforward to obtain, such as location and population estimates—for example from the Australian Bureau of Statistics. However, specific methodologies have needed to be developed to take account of the complexities of assessing the prevalence of petrol sniffing:

Monitoring the prevalence and frequency of petrol sniffing is a difficult task. People are unlikely to self-identify, and typically family and community members are reluctant to identify people as sniffers because of the severely negative connotations invoked. In addition the number of people sniffing in any given community can, and frequently does fluctuate greatly over quite short periods of time. A football carnival or the visit of an individual might spark a group of young people to start sniffing. If the community takes action and asks people to leave or locks up the stocks of the volatile substance being used, the sniffing may stop quite quickly. If unchecked it can grow to much higher levels very quickly. The clandestine nature and variability of sniffing makes accurate data collection extremely problematic.⁶⁶

4.8 PM&C has a number of sources of information about relevant Indigenous communities, including:

- data collected annually using a defined methodology under a research contract⁶⁷—reported to the department each year;
- information collected by the department as part of planning for the implementation of LAF at new sites; and
- reports of petrol sniffing incidents made through the broader network of PM&C regional staff or by other interested parties.

4.9 As these sets of information are held separately, they are not easily integrated to compile a broader view and are not readily accessible for data interrogation purposes. Some of the information is also recorded in the LAF sites database where key information is compiled. For a small team with continuity of staff, this method of storing data is reasonable. There is a risk, however, that data may be lost over time as staff leave or structural changes

66 Origin Consulting, *Whole of Strategy Evaluation of the Petrol Sniffing Strategy: Future Directions for the PSS Final Report*, FaHCSIA, 2013, p. 45.

67 There have been data collection exercises since 2005. The current data collection contract covers the period 2011–14.

occur. The value of the data retained is also reduced because it is not broadly accessible within the department.

4.10 In terms of helping assess the effectiveness of the PSS, the most important information about communities comes from the contracted research data collection. The extent to which this data is relevant, well-defined, consistent and accessible is assessed in Table 4.2.

Table 4.2: Assessment of current Petrol Sniffing Strategy data collection about communities

Characteristic	Suitability for management purposes	Suitability for broader use
Relevant: identified data will meet need	✓✓ A wide range of relevant data items are being collected; with local awareness of supplementary information	✓ Explicitly recording supplementary information such as location and population at sites where data collected is needed to allow more effective use of the useful data being collected.
Well defined: to allow interpretation and re-use	✓✓ The data items are clearly labelled and data collection methodology is documented.	✓ While the data elements are reasonably defined, improved explanation of the characteristics of the communities surveyed in the context of the characteristics of the regions of policy interest is important to allow useful extrapolation of the survey results for decision making.
Consistent: data recorded consistently	✓✓ The number sniffing at each community has been consistently recorded for three years, with additional useful information for the most recent two years.	✓✓ The number sniffing at each community has been consistently recorded for three years, with additional useful information included for 2012 and 2013.
Accessible: can be easily found and accessed	✓ The reports are readily available internally, but not in a machine readable format that would aid alternative analysis and presentation.	✗ The existence of the data is not recorded on a public data register, and the data is not available in a directly usable form. Some minor work would be needed to segregate sensitive information prior to any limited or general release

Source: ANAO analysis of the data collection reports for 2011, 2012 and 2013.

Legend: ✗: not satisfactory ✓: generally satisfactory, with some scope for improvements ✓✓: satisfactory.

4.11 There are reasonable arrangements for collecting administrative data to support the department in its operational activities, and to respond to information requests from Parliament. There is a sound foundation for research data collection to support evaluating the effectiveness of supplying LAF. This foundation would be improved by having some additional data items explicitly collected and requiring the information to be provided in soft copy so that files can be read by appropriate software to facilitate subsequent analysis. There would also be merit in the department considering the extent to which PSS related data is relevant to longer-term assessment of progress toward improved Indigenous health and safety and, to the extent appropriate, improving the arrangements for data quality and storage of PSS data to support such broader use of the data—both within the department, by other government agencies and more broadly. The current arrangement, of locally-used electronic documents and spreadsheets, leaves a risk that valuable data will be lost over time with changes in staffing and organisational arrangements.

Reporting of performance information

4.12 The value of information on performance lies in its ability to assist in decision making, and to provide transparency and accountability for the use of public funds. Performance information may be of wide interest to departmental management, related service providers, Indigenous communities and organisations, government, Parliament, the public, and researchers and academics. The department provides performance information about the supply of LAF through a mixture of responding directly to requests, annual reports, and websites. The information can be considered in two broad categories: progress and status information about the delivery of LAF, and information about the effectiveness of LAF in improving health and safety.

Key performance indicators

4.13 Performance indicators and targets published by government entities in Portfolio Budget Statements are intended to assist in informing Parliament and the public on program outcomes. Prior to September 2013, the PSS was delivered by four different Australian Government entities, including the former Department of Health and Ageing (DoHA), which was responsible for the provision of LAF. From 2005–6 to 2008–09, DoHA included in its annual report to Parliament a key performance indicator (KPI) for combatting petrol sniffing, which was the number of sites providing LAF. Between 2009 and 2014, no formal public reporting was undertaken for the LAF component of the PSS.

4.14 In September 2013, responsibility for Australian Government Indigenous programs was transferred to PM&C. Indigenous program funding arrangements were consolidated in 2014, which resulted in 150 individual programs and activities being brought together into the Indigenous Advancement Strategy (IAS). The IAS comprises five programs, one of which is the Safety and Wellbeing Programme. The IAS is primarily a grants program but the Government has agreed to fund specific initiatives through the program, including the LAF component of the PSS. In this respect, the Government has chosen to report from 2015–16 on the number of sites with LAF as one of the broader performance indicators for the Safety and Wellbeing Programme, although no targets are identified.

4.15 While the indicator of ‘the number of sites providing low aromatic fuel’ is measurable and has reasonable relevance to the goal of reducing the incidence and impact of petrol sniffing, the indicator has limitations. Importantly, the indicator takes no account of whether people in communities near one LAF outlet may still have easy access to RULP through other nearby outlets, with the associated risk of incidents of petrol sniffing.⁶⁸ In addition, the indicator takes no account of the size of the population living near the LAF outlet, or the overall volume of LAF supplied or of other factors that might make supply of LAF at a location more relevant to the desired health and safety outcome. As a result, reporting on the number of sites receiving LAF does not support an assessment of whether the incidence and impact of petrol sniffing is reducing as a result of the supply of LAF.

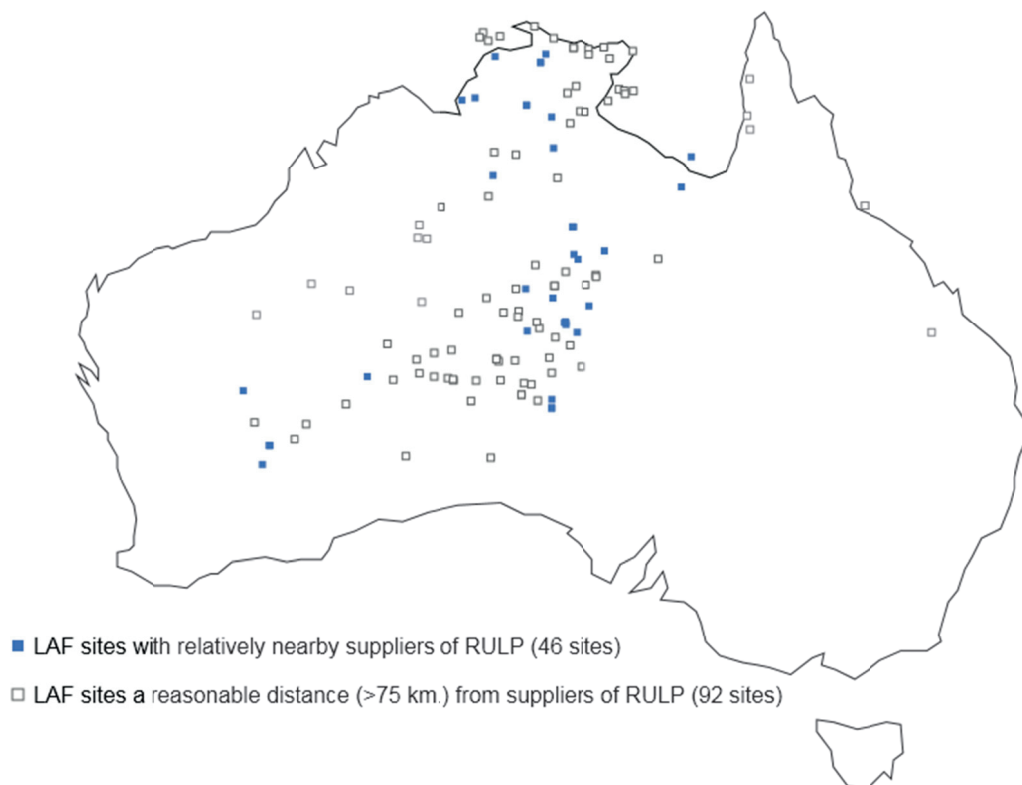
4.16 Research into petrol sniffing has found a significant relationship between the distance of a community to the nearest RULP outlet and the reduction in the prevalence of petrol sniffing.⁶⁹ Of the 138 sites receiving LAF in August 2014, about one third was within a straight line distance of 75 km of a non-LAF fuel outlet.⁷⁰ The location of LAF sites, indicating whether they are relatively close to supplies of RULP is shown in Figure 4.2.

68 In the early stages of the PSS the outlets where LAF replaced RULP were sufficiently remote that there was no practical access to RULP, and the number of LAF outlets was a reasonable performance indicator. However, with the expansion that is no longer the case.

69 d'Abbs P, and Shaw G, *Executive Summary of the Evaluation of the Impact of Opal Fuel*, DoHA, 2008, p. 2.

70 There has also been a change of definition of sites, with four sites being split to increase total sites by five.

Figure 4.2 LAF sites, indicating those near RULP outlets as at December 2014



Source: ANAO analysis of PM&C database of fuel outlets as at August 2014.

Note: This map should be treated as indicative, as there may be some RULP outlets not listed in the PM&C database. A threshold distance of 75 km in a straight line was used to define RULP sites as being 'relatively nearby' LAF outlets.

Status and progress information

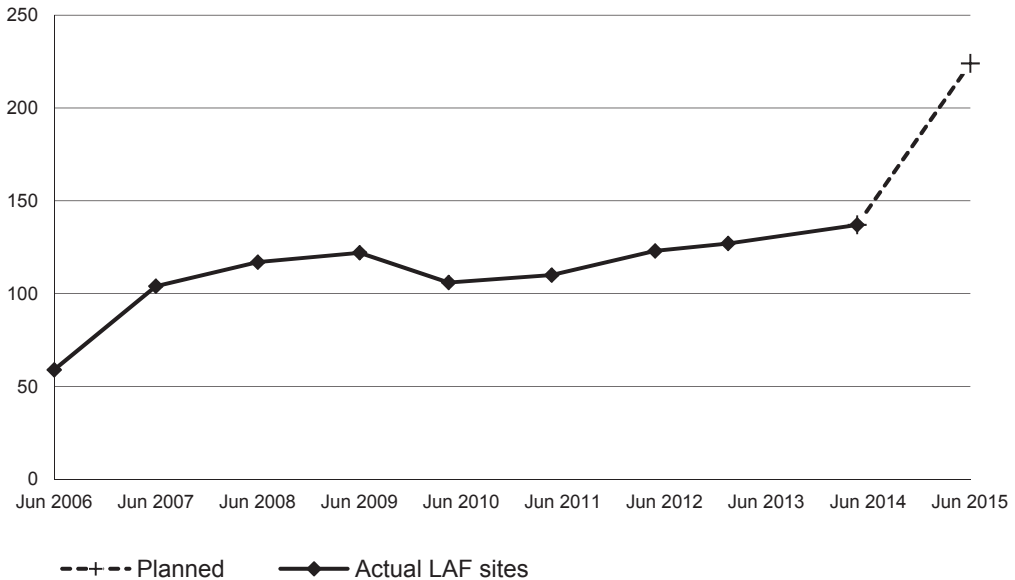
4.17 Information on the status of supplying LAF, and on areas of planned supply, has been collected and made available within PM&C (and previously the Department of Health and Ageing (DoHA)) to support decision making and the briefing of Ministers and the Parliament. In addition there was a DoHA maintained website focused on the initiative to stop petrol sniffing, which provided a wide range of information for the public.⁷¹ However, this website was superseded in October 2014, when PM&C launched a new website as part of its 'Rollout of Low Aromatic Unleaded Fuel Communications

71 The website was called 'Stop petrol sniffing' (<http://www.health.gov.au/stoppetrolsniffing>).

Implementation Plan 2014-15'. The current website includes a map of the expanded PSS, with a proposed timetable for the introduction of LAF to nominated geographic areas such as Cape York, Coober Pedy and Katherine in 2015.⁷²

4.18 While there has been no public reporting against the KPI for the PSS since 2009, information on the status of the strategy and plans for supply of LAF has been periodically provided to Parliament in response to inquiries and requests for information. As a result, to gain an understanding of the progress against plans over time using publicly available information involves locating information from a range of different documents and sources. The number of sites provided with LAF and the planned sites are shown in Figure 4.3.

Figure 4.3: Number of sites provided with Low Aromatic Fuel 2006 to 2014 and planned future sites from 2015



Source: ANAO analysis of DoHA annual reports 2006 to 2009, and internal PM&C documents.

Note: The number of sites is based on reported figures in various internal briefs and to Senate Estimates. There is some fluctuation in the numbers reported.

4.19 As there is Parliamentary and community interest in the PSS and given the ease of publishing information on the Internet, there would be merit in PM&C adopting an approach of regular progress reporting on its existing

72 The new website is <http://www.lowaromaticunleaded.gov.au>.

petrol sniffing website. In addition to information on the number of sites with LAF, this reporting could also include information on overall volumes of LAF produced and the number of LAF communities which also have access to RULP.

Evaluating the impact of Low Aromatic Fuel

4.20 Assessing the extent to which intended outcomes are being achieved, and the specific contribution of particular funded activities to those outcomes, often requires the collection and analysis of a broad range of information. Since 2005, there has been a number of reviews and evaluations of the use of LAF and the strategy's effectiveness in reducing the incidence and impact of petrol sniffing. Particular focus has been given to the impact of LAF in reducing the incidence of petrol sniffing and decisions on the progressive expansion of the supply of LAF have been made in the context of the research results of earlier stages of the PSS.

4.21 The most recent evaluation of the PSS was commissioned by the then Department of Family, Housing, Community Services and Indigenous Affairs and completed in 2012. The report recommended changes to the PSS eight point plan as well as recommending that a strategic plan be developed to provide 'more clarity on the goals, strategies and priorities for the PSS.'⁷³ Subsequent to the Whole of Strategy Evaluation report being released, administrative changes in September 2013 consolidated all the Commonwealth components of the PSS into one department, PM&C. Significant changes to Indigenous program funding arrangements also occurred during 2014. There would be merit in PM&C clarifying its approach to implementing other petrol sniffing activities in addition to the supply of LAF.

4.22 While the 2012 evaluation highlighted areas where the overall PSS could be strengthened, PM&C is well positioned to assess the effect of the supply of LAF in a selection of the communities receiving it. As noted in paragraph 4.8, since 2005, a contracted research provider has assessed a sample of communities periodically for incidences of petrol sniffing outbreaks. The arrangements were put in place at the commencement of the strategy and the periodic data collection in selected communities has enabled an assessment of results in these

73 Origin Consulting, *Whole of Strategy Evaluation of the Petrol Sniffing Strategy: Future Directions for the PSS*, January 2012, p. 77.

communities over time.⁷⁴ In general, where comparisons could be made in the number of people sniffing, some reduction in sniffing has been observed and associated with the provision of LAF. Although in some areas increased sniffing has also been observed. The researchers note that:

Taken together, these trends and patterns suggest that, while the rollout of LAF continues to be associated with significantly reduced levels of petrol sniffing compared with baseline levels recorded in 2005–07, there are also signs of continuing and in some cases increasing levels of petrol sniffing. This is particularly apparent in communities that are not yet incorporated into a regional strategy for rolling out LAF.⁷⁵

4.23 The department has taken an appropriate approach to managing the research contract. Importantly, the department's specification of the work includes making an assessment of not only changes in the prevalence of petrol sniffing, but also the extent to which any changes are due to the supply of LAF, any unintended consequences and identifying any other factors that have contributed to the prevalence of petrol sniffing. Consideration of these factors is likely to make the assessment of findings more reliable and of more value to decision makers. In addition, there are arrangements for the work to be undertaken to an appropriate quality and with proper regard for sensitivities associated with privacy and Indigenous research protocols. However, as noted in paragraph 4.11, there would be merit in future research contracts also specifying arrangements for data quality, data formats and transferring data to the department.

4.24 Overall, the arrangements maintained by PM&C to monitor and assess performance are satisfactory and enable the collection of relevant data on the PSS. As the PSS has been implemented since 2005, there is scope for PM&C to strengthen its approach to reporting performance information. In relation to formal reporting to Parliament this could include developing indicators which more clearly focus on the impact of the PSS. PM&C could also include on its existing petrol sniffing website information on: the number of communities receiving LAF; those areas where RULP is no longer available within a defined distance; and the volume of LAF being supplied to sites.

74 In 2005–06, 74 communities situated in remote Australia were surveyed to establish a baseline. In 2007–08, 20 communities were re-visited as part of an impact study. In 2011–12, 41 communities drawn from nine regions located in the Northern Territory, South Australia, Western Australia and Queensland were included in the data collection.

75 d'Abbs P and Shaw G, *Monitoring Trends in Petrol Sniffing in selected Aboriginal Communities: Interim Report*, Menzies School of Health Research, May 2013, p. 4.

Recommendation No. 1

4.25 In order to improve accountability and reporting for the Petrol Sniffing Strategy, the ANAO recommends that the Department of the Prime Minister and Cabinet:

- (a) strengthens its reporting in relation to the impact of the Petrol Sniffing Strategy; and
- (b) includes on its existing petrol sniffing website more detailed information on the progress in supplying low aromatic fuel against targets as well as other information on volume and continued access to regular unleaded petrol.

Department of the Prime Minister and Cabinet's response

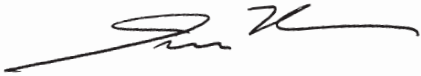
4.26 *Agreed.*

Conclusion

4.27 PM&C has built up a reasonable evidence base to support the assessment of whether the provision of LAF assists in reducing the incidence of petrol sniffing. Since 2005, there have been a number of reviews and research projects examining the use of LAF and its effectiveness in reducing the incidence and impact of petrol sniffing as well as examining how well the broader activities undertaken within the PSS in conjunction with the supply of LAF address underlying causes of outbreaks. Decisions on the progressive expansion of the PSS have been made in the context of the research results of earlier stages of the strategy. Overall, approaches to research and data collection are well developed, although there is some scope to improve data definitions, recording and availability to allow broader use of the valuable data collected.

4.28 Parliamentary interest in the PSS through Senate committees has meant that information provided by the department has been made public through the Hansard transcripts. In addition, evaluation reports and report summaries have also been made available on the Internet. However, formal public reporting on the performance of the PSS to Parliament through agency annual reports has not been undertaken since 2009. For 2014–15, PM&C has reinstated the indicator previously used by DoHA as a key performance indicator for the broader Safety and Wellbeing Programme, within the Indigenous Advancement Strategy, as the LAF component of the PSS is funded as a specific initiative under that program. The number of sites with LAF provides some limited information regarding the footprint of the PSS, however, this narrowly-focussed indicator is not as useful

in providing an assessment of the LAF specific objective to reduce access to regular unleaded petrol or in reducing petrol sniffing. Given the maturity of the program, there is scope for PM&C to strengthen its performance reporting in relation to the supply of LAF and its contribution to the overall objective of the PSS. In addition, more regular reporting on the petrol sniffing website maintained by the department would also facilitate greater accessibility and accountability for the PSS to stakeholders in addition to proposed reporting through the PM&C Annual Report.



Ian McPhee

Canberra ACT

5 May 2015

Appendices

Appendix 1: Entity Responses



Australian Government
Department of the Prime Minister and Cabinet

Michael Thawley AO
Secretary

Ref: EDOC15/9099

Dr Andrew Pope
Group Executive Director
Performance Audit Services Group
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Dr Pope

Thank you for your letter of 20 March 2015 regarding the proposed audit report on the Delivery of the Petrol Sniffing Strategy to Remote Indigenous Communities.

The Department appreciates the opportunity to formally comment on the proposed report.

The Department agrees with the ANAO's recommendation aimed at improving the accountability and reporting for the Petrol Sniffing Strategy.

This recommendation, as well as the report as a whole, will be taken into account in the future planning and administration of the Strategy.

Yours sincerely
Michael Thawley

Michael Thawley
15 April 2015

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Australian Government
Department of Health

SECRETARY

Dr Andrew Pope
Group Executive Director
Performance Audit Services Group
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Dr Pope

**PERFORMANCE AUDIT: DELIVERY OF THE PETROL SNIFFING STRATEGY
IN REMOTE INDIGENOUS COMMUNITIES**

Thank you for your letter of 20 March 2015 providing an opportunity for the Department to comment on the proposed Australian National Audit Office (ANAO) report of the above audit.

I note that the Department has only been provided with an extract of the proposed report and that there are no recommendations specifically aimed at the Department.

Your letter of 20 March 2015 requested any Departmental comments to be provided in writing for inclusion in the final report. The Department does not have any comment to offer in relation to the extract of the proposed report.

If you have any questions about this matter, please contact Mr Colin Cronin, Assistant Secretary, Audit and Fraud Control on (02) 6289 7877.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Martin Bowles', written over a circular official stamp.

Martin Bowles PSM
SECRETARY

22 April 2015

Index

B

BP Australia Pty Ltd, 9, 13, 16, 22, 30,
31, 35, 36, 37, 46, 47, 54, 58, 60, 61, 62,
64, 72

C

Cape York, 36, 37, 56, 62, 65, 81
Central Desert Region, 15, 34, 62

E

East Kimberley, 15, 34, 36, 62, 65

G

Gulf of Carpentaria, 36, 37, 56, 62, 65,
67

K

Kalgoorlie, 36, 37, 46, 64

T

The Department of the Prime Minister
and Cabinet, 14, 17, 20, 21, 23, 33, 35,
36, 37, 39, 42, 45, 46, 47, 48, 50, 51, 52,

55, 56, 57, 58, 60, 65, 66, 72, 73, 74, 75,
76, 79, 80, 81, 82, 83, 84

The former Department of Health and
Ageing, 14, 16, 19, 20, 22, 23, 33, 36,
39, 42, 43, 44, 47, 55, 56, 58, 60, 61, 62,
63, 64, 67, 68, 69, 70, 72, 78, 79, 80, 81,
84

The Shell Company of Australia, 16, 22,
24, 36, 37, 61, 62, 63, 64, 65, 66, 72

Top End, Northern Territory, 36, 62, 65

V

Viva Energy Australia, 16, 22, 24, 36,
37, 46, 61, 64, 66, 67, 72

Vopak Terminal Darwin Pty Ltd, 16,
24, 37, 63, 65, 67, 68, 69, 70, 71, 72

W

Weipa, 24, 36, 48, 62, 65, 66

Western Australian Goldfields, 36, 46,
62, 64

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Across Entities

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Department of Defence

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Australian Customs and Border Protection Service

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Department of Veterans' Affairs

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Department of Defence

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Department of Immigration and Border Protection

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Defence Materiel Organisation

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Delivery of the Petrol Sniffing Strategy in Remote Indigenous Communities

Department of the Prime Minister and Cabinet

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