

VICTORIA

Auditor-General
of Victoria

SPECIAL REPORT No. 48

**MAJOR CIVIC
PROJECTS**

Work in Progress

Ordered by the Legislative Assembly to be printed

VICTORIAN GOVERNMENT PRINTER

ISSN 0818 5565
ISBN 0 7306 9289 2

April 1997

The President
The Speaker

Parliament House
Melbourne Vic. 3002

Sir

Under the provisions of section 16 of the *Audit Act* 1994, I transmit the Auditor-General's Special Report No. 48, "*Major civic projects: Work in progress*".

Yours faithfully

C.A. BARAGWANATH
Auditor-General

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Foreword

The Government has embarked on an extensive construction program aimed at revitalising the State. Although the program is expected to continue into the 21st Century with many projects still under construction or at the planning stage, I have taken the opportunity in this Report to comment on progress made to date in implementing this major program.

The Report identifies that unlike many of the State's major assets constructed in the past decade which were funded through borrowings and involved complex financing arrangements, the Government has adopted a practice of using casino and gaming revenue, or involving the private sector, to fund the majority of its major civic works. This strategy has been directed at enabling development to proceed at a time of fiscal constraint.

This audit has again prompted debate regarding the definition of Government policy and the boundaries of my audit mandate, in the context of comments made on the need for the Government to clearly justify each of its major civic projects. It has been suggested that decisions to proceed with projects made at a Ministerial level or contained within the Government's election platform come under the umbrella of Government policy and are outside my mandate. However, it would seem to me that it is clearly my responsibility to report where sound management practices have not been followed in implementing government policy, for example in instances where feasibility studies have not been undertaken to substantiate that the expected benefits to be derived from a major civic project outweigh the costs involved.

C.A. BARAGWANATH
Auditor-General

Part 1

Executive summary

Part 1.1

Overall audit conclusion

1.1.1 Since it came to office in 1992, the Government has embarked on a program of major civic projects, most of which have been linked to its *Agenda 21* banner. The expected total cost of the announced projects is over \$4 billion with some already completed, some in progress and others still in the planning stage. In line with its program of fiscal constraint, the Government’s objective of funding the projects without borrowing or drawing on the current account has been substantially achieved, to date, through the use of casino or gaming revenue and financial investment by the private sector. The audit involved detailed examinations of 4 publicly-funded major civic projects, namely, the Melbourne Exhibition Centre, the Melbourne Sports and Aquatic Centre, the Regent Theatre refurbishment and the State Library Redevelopment. The expected total cost of these projects is over \$400 million.

1.1.2 While not second-guessing the decisions of the Government to approve major civic projects, the basis on which the decisions were made in the case of 3 of the 4 projects examined is questioned. In particular, the absence of feasibility studies and preliminary costing data to assist the Government in its funding decisions is a departure from sound asset management principles and the framework outlined in the Government’s capital works planning reforms.

1.1.3 The broad outcomes expected by the Government from each of its major civic projects have not been stated in measurable terms. Nevertheless, it is clear in the case of the 2 completed projects examined that achievements to date have been considerable. Feedback from exhibition organisers gathered by a market research firm engaged to assist in the audit indicates that the Melbourne Exhibition Centre, which was completed on time and within budget, is seen as a facility of international standard. It has become a major exhibition venue in its first year of operation. Similarly, the Regent Theatre, which had been vacant and in disrepair for over 20 years, is now operational and refurbished in a way which substantially retains its historic structure.

1.1.4 On the other hand, to achieve the refurbishment of the Regent Theatre, the Government and the Melbourne City Council have contributed over \$28 million and have made certain concessions to the developer, with little expectation of any direct financial returns. The proposed development of a hotel on the City Square, which was seen by the Government and the Council as an important outcome of their contribution to the Theatre’s refurbishment, is not yet certain to go ahead.



1.1.5 There have been varying outcomes, to date, in relation to time and cost targets for the 2 projects examined which are still in progress. While indications are that the Melbourne Sports and Aquatic Centre will be completed substantially on time and within budget, significant time extensions have been required on the State Library Redevelopment. There are also concerns regarding whether the entire scope of works for the State Library Redevelopment can be completed within the approved budget.

1.1.6 On balance, the planning and management of the selected major civic projects was found to be satisfactory. However, based on expert advice from within the building and construction industry, some of the practices adopted need to be improved if the Government is to achieve best practice. Areas requiring attention include certain aspects of quality assurance, project documentation, cost minimisation and reporting mechanisms. There is also scope to review the framework across the public sector for delivering major civic projects with a view to strengthening accountability and eliminating inefficiencies.

1.1.7 Given the ongoing nature of the Government's program of major civic projects, the suggestions in this Report are aimed at assisting in the process of continuous improvement, in line with the Government's platform of promoting best practice within the building and construction industry.

Part 1.2

Summary of major audit findings

Justification and funding	Page 35
• Within the context of improving the performance of the State’s assets, significant capital works planning reforms were initiated by the Department of Treasury and Finance in 1993. The reforms are aimed at aiding the Government in considering options, establishing priorities and effectively applying funds. <i>Paras 4.6 to 4.9</i>	
• In the 3 years to 30 June 1996, the procedure of formally prioritising capital works against Statewide funding criteria was applied to only \$980 million of the total \$2.2 billion State funds allocated to new capital works. <i>Paras 4.16 to 4.19</i>	
• The absence of an audit trail prevented an assessment of how certain projects included in the \$980 million were ranked ahead of others and whether the Treasurer’s recommendations to the Government in relation to new capital works reflected Statewide funding criteria. <i>Paras 4.12 to 4.14</i>	
• There is a need to clarify requirements in relation to the application of capital works planning guidelines issued by the Department of Treasury and Finance, given the difference between public policy statements and actual procedures followed. <i>Paras 4.16 to 4.19</i>	
• The Government’s objective of financing major civic projects without borrowings or expenditure from the current account has been substantially achieved for the 4 projects selected for detailed examination. <i>Para 4.33</i>	
• Three of the 4 projects examined were not subject to a feasibility study demonstrating that benefits would exceed the costs involved. <i>Paras 4.20 to 4.24</i>	
• In some cases, initial costing data supporting the Government’s approved funding levels for the selected projects was inadequate. <i>Paras 4.33 to 4.46</i>	
• Action was taken to ensure the risks to the Government and the Melbourne City Council of cost overruns on the Regent Theatre refurbishment were minimised. However, the risk that the Theatre would not be viable was not fully addressed. <i>Paras 4.25 to 4.26</i>	



Justification and funding - <i>continued</i>	Page 35
<ul style="list-style-type: none">• As there was no irrevocable commitment by the developer to construct a hotel on the City Square, it may have been more appropriate to evaluate and negotiate the refurbishment of the Regent Theatre as a stand-alone project. <i>Para 4.26</i>• Certain payments to the developer of around \$3.4 million were not directly linked to the costs of refurbishing the Regent Theatre but were agreed to as part of the final negotiations. <i>Paras 4.27 to 4.29</i>	

Delivery framework	Page 47
<ul style="list-style-type: none">• There is a need to clarify roles, responsibilities and relationships within the current project delivery framework. <i>Paras 5.4 to 5.13</i>• The Office of Major Projects within the Department of Infrastructure has taken a significant role in relation to the management of major civic projects. The influence of the client and sponsor agencies during project delivery has been less than within a private sector purchaser/provider relationship. <i>Paras 5.11 to 5.13</i>• The practice of the Office of Major Projects of assigning a project director to each project in addition to a privately engaged project manager, adds an extra management layer during the construction phase, compared with private sector and some other public sector frameworks. <i>Paras 5.17 to 5.20</i>• For the Office of Major Projects to seek opportunities to operate in a more competitive environment, current practices of the Office in relation to resource budgeting and management information would need to be enhanced. <i>Paras 5.21 to 5.24</i>• A formal process of defining and communicating the Government's broad expected outcomes from projects and measuring achievements has not been established. <i>Paras 5.25 to 5.28</i>	

Project management	Page 57
<ul style="list-style-type: none">• The approach of the Office of Major Projects to project management reflects its experience and competence. There is, however, scope for improvement in some areas to meet best practice. <i>Paras 6.1 to 6.2</i>• Extensive consultation with key stakeholders, special interest and end-user groups occurred during the design phase of each project. A similar approach to those residents affected by projects may assist in more timely attention to their concerns. A policy in relation to consultation with people with disabilities also needs to be established. <i>Paras 6.17 to 6.20</i>• The design of the Melbourne Exhibition Centre was complicated by the need to incorporate the <i>shell</i> building of a new museum under construction on the site and the tight deadlines established by the Government. <i>Paras 6.21 to 6.25</i>	

Project management - *continued***Page 57**

- During the construction phase of most of the projects examined, significant emphasis was placed on controlling costs within approved budgets. The use of *value management engineering* could facilitate an increased focus on achieving optimum value-for-money. *Paras 6.23 to 6.25*
- It was not possible to fully substantiate whether payments made for Regent Theatre refurbishment works exceeded the actual costs incurred by the developer. *Para 6.54*
- Tendering practices were found to be generally satisfactory. However, the engagement of some consultants, including a number engaged by the developer on the Regent Theatre refurbishment with a value of around \$3 million, were not subject to tendering procedures. *Paras 6.26 to 6.29*
- With some minor exceptions, the contracts with the builders engaged on selected major civic projects adequately addressed the risks associated with the selected method of contracting. *Paras 6.30 to 6.40*
- There is a need to strengthen the monitoring of compliance with agreed quality assurance procedures and quality outcomes. *Paras 6.58 to 6.60*

Project outcomes**Page 73****Melbourne Exhibition Centre**

- The Melbourne Exhibition Centre was completed on time within a tight timeframe. *Para 7.3*
- Design and construction costs for the Melbourne Exhibition Centre were met within the approved budget of \$129 million. *Para 7.19*
- Taking into account other costs, including those associated with land acquisition and certain costs already incurred on the construction of a museum on the Southbank site, the total cost to the Government of completing the Melbourne Exhibition Centre is estimated at almost \$170 million. *Paras 7.20 to 7.22*
- Responses from exhibition organisers indicated that the Melbourne Exhibition Centre is seen as a facility of international standard with distinct advantages over similar facilities in Sydney and Brisbane. *Paras 7.33 to 7.39*
- Exhibition organisers expressed great satisfaction with truck access and unloading facilities, flexibility of space, floor layout and capacity, and utility pits. Some functional difficulties were raised in areas such as signage, ceiling suspension facilities and car parking. *Paras 7.39 to 7.51*

Melbourne Sports and Aquatic Centre

- Progress reports for the Melbourne Sports and Aquatic Centre indicate that the project is on schedule and within budget. Completion of the project is expected to be in late June 1997.
Para 7.10
- Remaining funds provided for contingencies will need to be carefully managed for the Centre to be completed within the budget of \$65 million.
Para 7.23

Regent Theatre refurbishment

- The Government and the Melbourne City Council have recognised that they are unlikely to receive a commercial rate of return on their contribution to the Regent Theatre refurbishment.
Paras 7.59 to 7.63
- A consultant engaged by the Office of Major Projects reported in March 1993 that the Regent Theatre/City Square development would generate an internal rate of return of between 2 and 3 per cent and, on that basis, no prudent developer or investor would fund the project.
Para 7.59
- In addition to their combined initial contribution of \$25 million to the Regent Theatre refurbishment, the Government and the Melbourne City Council have contributed additional funds including costs involved in the purchase of the Duty Free Shop adjacent to the Theatre.
Paras 7.24 to 7.26
- The Duty Free Shop, which is registered by the Melbourne City Council as a notable building, was demolished without a planning approval or a building permit. As the Duty Free Shop was to facilitate entry by people with disabilities through the front of the Theatre, it has been necessary to arrange alternative interim access.
Paras 7.13 to 7.14
- In July 1996, the Regent Management Company agreed to certain concessions amounting to \$2.5 million in return for the developer funding works necessary to enable large productions to be staged at the Theatre. The decision was not supported by research into the market for large theatre productions.
Paras 7.64 to 7.65
- For the first 11 years of a 50 year lease, the Regent Theatre has been leased to the developer at an annual rental of \$70 000, representing only 20 per cent of the 1993 market value.
Paras 7.57 to 7.58
- Financing arrangements for a hotel on the City Square have not been finalised and as a result this component of the project is not yet certain to go ahead.
Paras 7.67 to 7.70

State Library Redevelopment

- Substantial delays have been experienced to date in relation to the State Library Redevelopment due in part to unknown conditions on the site and the age of the building. It is of concern that extensions of time have become an ongoing characteristic of the project.
Paras 7.16 to 7.18
- The budget of \$187 million approved by the Government may not be sufficient to complete the remaining scope of works for the State Library Redevelopment.
Paras 7.27 to 7.30



❑ **OVERALL MANAGEMENT RESPONSE** by Secretary, Department of Premier and Cabinet

Introduction

Victoria’s major civic projects have helped revitalise the State and, as the Auditor-General’s Report makes clear, the projects completed so far have been the subject of popular acclaim.

This Report makes very little criticism in the areas of efficiency, effectiveness and economy. Indeed, it notes that the achievements of the 2 completed projects “... have been considerable” and that “... on balance, the planning and management of the selected major civic projects was found to be satisfactory”.

The Report expressly states that audit is “... not second-guessing the decisions of the Government to approve various major civic projects”. The Report’s criticisms centre on the timing of feasibility studies and investment evaluation processes undertaken in relation to these projects. We believe that processes implicitly suggested by audit’s conclusions - which would require detailed feasibility studies and costings to be completed prior to a government’s in-principle policy support for a project - are impracticable, inefficient and unnecessary.

Even the commencement of a detailed feasibility study and preparation of costings logically requires government in-principle endorsement of the project concerned.

The Report also undervalues government processes in relation to major civic projects.

Importance of the projects

These 4 civic projects are of major significance to present and future generations of Victorians. They are projects which form part of a broader civic and cultural renewal in Victoria.

The Melbourne Exhibition Centre has been an unparalleled success and has received universal endorsement as an exhibition venue of international stature. Compared with the Brisbane Convention and Exhibition Centre, the Melbourne Exhibition Centre cost approximately \$50m less to construct and took almost a year less to complete yet it is much larger, has more flexible space and has more car parking. More than 1.5 million people visited the Centre in the first year of operation.

Likewise, after lying in near ruin for decades, the Regent Theatre has been refurbished to its former glory, attracting thousands of Victorians, interstate and overseas visitors, and furthering Melbourne’s international reputation as a city of artistic and cultural excellence.

Similarly, we will soon have the world class Melbourne Sports and Aquatic Centre, which will provide a sporting venue which will attract international sporting and related events to Victoria. The restoration of the State Library in conjunction with the construction of a new museum will give Victorians access to 2 of the finest educational and cultural centres in the world.

Government decision-making

Decisions on major civic projects are made by government on behalf of the community. In making such decisions, the Government is required to exercise broad judgement, and relies on many sources of advice of which central agency advice is just one. The Government, through its Ministers, also seeks community and key interest group views. To do otherwise would be an abrogation of its responsibility.



We cannot accept audit's views questioning the decision-making process in the case of 3 of the 4 projects examined. Audit seems to suggest that full feasibility studies should be undertaken before there is any in-principle government decision on a major civic project. Government is entitled to make in-principle decisions to proceed with capital works projects subject to more detailed studies defining scope, viability, cost and timing for each project.

Project direction and management processes

Upon election in 1992, the Government used the asset procurement and project delivery mechanisms that were inherited from the previous government. It then progressively sought to revise and improve these through the release of "best practice" policies, systems and legislation on project delivery, including:

- *Project Appraisal Guidelines (1993) which were revised and upgraded to the Investment Evaluation and Policy Guidelines (1996);*
- *The Project Development and Construction Management Act 1994; and*
- *Capital City Policy 1994.*

Of the 4 projects audited by the Auditor-General, 3 were actually conceived under the systems established by the former government. Only one (the Melbourne Sports and Aquatic Centre) was conceived under the new project delivery process that has progressively evolved during the first term of the Kennett Government.

All 4 projects have been professionally and prudently managed. Audit's comments confirm this, but do not recognise the associated strategic efforts of the Government in constantly updating and wholly reforming the management and legal practices associated with the delivery of major civic projects in the State of Victoria.

Nor does the Report recognise the project direction and management processes which must be used to ensure the successful outcome of these major civic projects. Audit's acknowledgment of the success of the 2 completed projects is an indication that the process does deliver good results. Criticism that the process deviates from private sector practice gives insufficient weight to the civic and cultural nature of these projects and their essential difference from private sector projects.

The Report's statement that some aspects of the practices adopted by government need to be improved on the basis of expert advice from the private sector gives inadequate weight to the additional responsibility which government carries in undertaking major community civic projects and also the fact that these projects are of generational civic importance. The need to ensure value-for-money and proper use of taxpayers' funds means that the risk management strategies adopted, and hence the processes used, will be different from, and in many cases more stringent than, that adopted by the private sector. The role of the Office of Major Projects is a good case in point. To suggest that this role is an additional layer of management is suggesting that government adopt a less rigorous risk management approach.

Specific issues

The Report contains some specific conclusions which require comment:

- *Audit's comments in relation to the contributions to the Regent Theatre development do not adequately reflect the benefit derived by the State from the project. The findings do not acknowledge the direct benefits to government and the Melbourne City Council (MCC), who retain full ownership of the Theatre and the Duty Free Shop. The Government and the MCC now have a very significant asset with an insurance value of \$50m. The developer has:*
 - *undertaken all the risks of construction and operation;*
 - *contributed at least an additional \$9m of its own funds toward refurbishment to date (i.e. Fly Tower Extension Works);*
 - *agreed to undertake the costs for ongoing repairs and maintenance for the duration of the lease; and*
 - *agreed to rebuild and fit-out the Duty Free Shop at its own cost.*

- *The arrangements for the Regent Theatre necessarily provided financial incentives for the developer to achieve these desirable outcomes. However, the reference in the Executive Summary to additional concessions of \$2.5m by government and MCC through its company, the Regent Management Company Pty Ltd, is unclear. This \$2.5m did not constitute an up-front capital contribution nor concession, but rather is the net present value of the sum of agreed lease rental reductions over an 11 year period, agreed as a basis for at least \$9m of additional capital investment in the Theatre by the developer.*
- *Audit’s statement that the application of the guidelines would be further enhanced if the Department of Treasury and Finance (DTF) implemented procedures to assess compliance and the veracity of information suggests a weakness at the time of the audit. As part of the introduction of the Investment Evaluation Policy and Guidelines, DTF does now assess the level of compliance with guidelines and the veracity of the information provided by agencies in their submissions. The Investment Evaluation Policy and Guidelines were developed after due consideration of the effectiveness of the initial guidelines revealed limitations and they have a formal post-project review to assess the achievement of capital works objectives.*
- *The comments by audit on the documentation of the evaluation process give insufficient weight to the fact that the development of such guidelines is a dynamic process, involving continuous review and refinement. The Investment Evaluation Policy and Guidelines were developed to help address shortcomings and these were trialed in 1995-96, partially implemented for the 1996-97 Capital Program, and fully implemented for the 1997-98 Capital Program. The planning processes evident in the 1996-97 Capital Program and the 1997-98 Capital Program demonstrate adherence to the Investment Evaluation Policy and Guidelines.*
- *Audit makes claims about the complete audit trail on capital works evaluation. On this issue the following needs to be recognised:*
 - *Decisions on the annual Capital Program are made by government after taking advice from a number of sources, including the Department of Treasury and Finance, individual departments through briefings to their Ministers and also other factors which government regards as relevant.*
 - *The allocation of scores for each of the whole-of-government criteria for each of the projects represents the output of the “extensive internal discussions, meetings and referral back to agencies”. This scoring allowed the projects to be prioritised and allowed the Government to determine whether or not it agreed with the scoring on a project by project basis. The scoring, by representing the outcome of the extensive project analysis, is in fact the audit trail. It is the rationalisation of a process which, if documented to the extent suggested, would result in voluminous documentation for little return.*
- *Audit’s suggestion of defining the circumstances under which it is not necessary to adhere to the Guidelines is not practical. Individual projects can be approved by government on a case-by-case basis where government decides that such projects are in the best interests of the State. It is, therefore, not possible to construct a set of guidelines which will take into account the specific circumstances of each such individual case. It should also be noted that guidelines are not intended as mandatory rules. They are intended to achieve an ordered and consistent approach recognising that there are always likely to be instances where community needs will take precedence over such guidelines. Like any large corporation, government must retain the flexibility to make decisions which may not reflect the guidelines.*



Conclusion

Since 1992, the Government has continuously upgraded the sector's capital works budgeting, investment appraisal and management guidelines and processes. We expect that experience will lead to still further improvements in the future but believe that the systems in place over the last 5 years are a vast improvement on the position which existed previously. As is acknowledged by audit, they have generally worked well in the public interest.

Part 2

Background

POLICY DIRECTION

2.1 A document released by the Government prior to the 1992 State election, titled *Revitalising Our Capital City*, contained a commitment to reviving economic activity through assistance with suitable development projects that would create new jobs and attract new private investment.

2.2 In line with this commitment, the Government announced its Agenda 21 program of fully-funded major civic projects shortly after coming to office. The program was to “... *revitalise Victoria’s capital city and restore its cultural and commercial dominance by the turn of the century*”. The creation of new jobs was also an underlying objective of the program. Nine projects with a value in excess of \$1.1 billion, some of which had been listed in the pre-election document, were identified as necessary to achieving the goal.

2.3 Agenda 21 was not established as a separate program in that it did not have a defined budget, specific measurable objectives or funding criteria and over time it has evolved into a badging or marketing tool for the Government's Statewide program of major civic projects. Decisions on which of the major civic projects announced since 1993 were to be linked to the badge were made by the Government on an individual project basis.

2.4 In the Government's 1996 Annual Report *Victoria - The Story So Far*, 19 specific major projects as well as a number of smaller regional and community projects were listed under the Agenda 21 banner. Based on published data, the expected total cost of the projects is around \$4 billion (private and publicly funded) including over \$750 million for the construction of a casino at Southbank and over \$2 billion for a proposed development in the Docklands area west of the Melbourne Central Business District.

NATURE OF PROJECTS

2.5 Many of the Government’s major civic projects have been directed at revitalising facilities or areas of Melbourne which were vacant, underutilised or in need of refurbishment. In addition to achieving specific operational objectives, they have often been directed at achieving broad economic or cultural outcomes for the State.

2.6 These factors, coupled with the one-off nature of the projects, have added a degree of complexity to delivering the projects compared with some other public construction projects such as hospitals or schools.

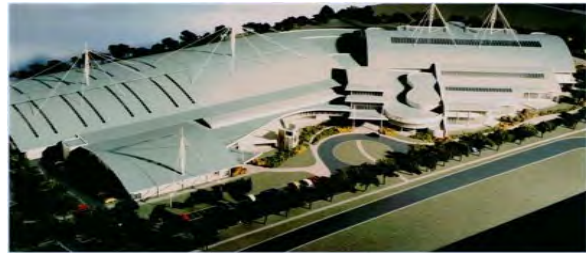
2.7 Many of the Government’s major civic projects are located within, or close to, the Melbourne Central Business District. The location of a number of the projects, in addition to certain key sites referred to in this Report, are illustrated on the following pages.



■ 1 Permanent Casino Under Construction



■ 4 Melbourne Exhibition Centre



■ 5 Melbourne Sports and Aquatic Centre



■ 2 City Square



■ 6 State Library of Victoria and current Museum of Victoria



■ 3 Melbourne Convention Centre (formerly the World Congress Centre)



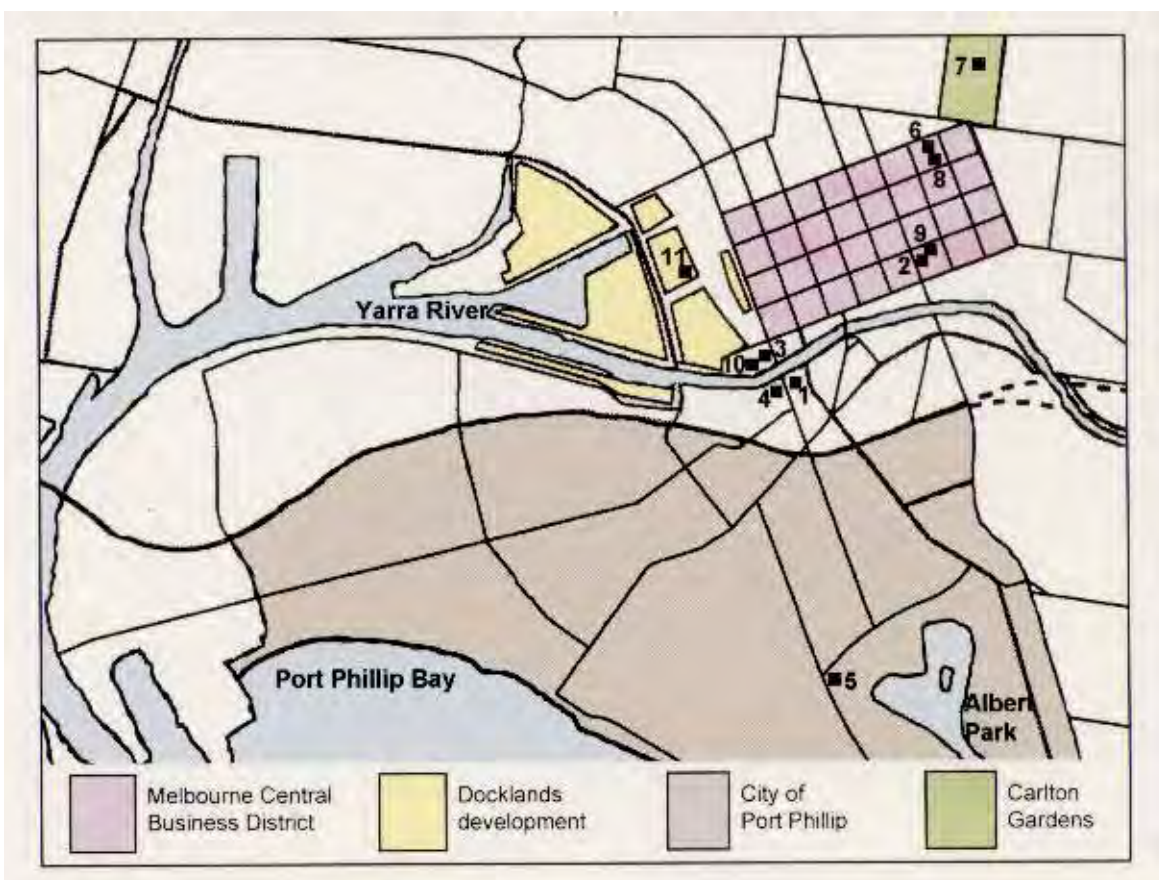
■ 7 Royal Exhibition Building and proposed New Museum



■ 8 Queen Victoria Hospital Site



■ 10 Temporary Casino



■ 9 Regent Theatre



■ 11 Proposed Docklands development

FUNDING OF MAJOR CIVIC PROJECTS

Funding constraints

2.8 As part of the Government’s program of reducing the State’s deficit, a number of constraints have been placed on capital works expenditure over the past 4 years. In October 1992, the Treasurer announced a reduction of \$125 million in the budget sector capital works program. The Treasurer subsequently indicated in April 1993 that a temporary freeze imposed on all budget-funded capital works not commenced or contracted had been lifted. However, capital spending was to be kept under tight control through introducing revised capital planning and programing arrangements.

2.9 During 1994-95, the Government adopted a fiscal target of maintaining investment in budget sector capital works, funded from both public and private sources, at an average of 1.25 per cent of Gross State Product. Funds allocated to all projects including the Government’s program of major civic projects are to be constrained within this target, which is to remain until June 1999.

Funding sources

2.10 Consistent with the Government’s fiscal constraints, the Agenda 21 program is to be funded “... *without a need for any financial borrowings or expenditure from the current account*”. Consequently, funding has been derived from a range of sources including private sector funding of the casino at Southbank and the Docklands development.

2.11 State revenue from the issue of a licence for the casino at Southbank and a percentage of taxation on gross gambling revenue from the casino has also been a major source of funding for major civic projects. In addition, funding has been provided from State revenue derived from gaming machines in hotels which is paid to the Community Support Fund established under the *Gaming Machine Control Act 1991*. Funding from this source has been provided for the Melbourne Sports and Aquatic Centre currently under construction at Albert Park.

2.12 Even where funds have been provided from private sector sources, some State revenue has been contributed to assist in facilitating the projects including around \$10.7 million to consolidate the casino site.

2.13 A number of the Government’s other major civic projects have been funded from Commonwealth or joint Commonwealth/State Government programs including the Better Cities program. Such projects include 3 announced in the initial launch of Agenda 21, namely, the Old Customs House, the Old Treasury Building and the City Circle Tram, with an estimated total cost of \$14 million.

2.14 The Government’s \$12.5 million contribution for the refurbishment of the Regent Theatre was met from the sale proceeds of the Queen Victoria Hospital site.

Casino revenue

2.15 According to statements issued at the initial launch of the Agenda 21 program, the construction of a casino at Southbank was seen as central to funding the program. Proceeds from the casino licence and a percentage of the tax on its gross gambling revenue were to provide a funding source for a new exhibition centre at Southbank, a new museum in the Carlton Gardens and redevelopment of the State Library of Victoria. These projects were to proceed only as funds became available. A number of projects announced since the initial launch of the program have also been identified for funding from casino revenue.

2.16 The casino is now under construction and a temporary casino, opened in June 1994, is to continue to operate until the permanent casino is completed. Forecasts prepared by the Department of Treasury and Finance to June 1996 indicate that sufficient funds will be available to meet the expected cost of major civic projects approved for funding from casino revenue. Table 2A, based on the Department's forecasts, shows that the projected total end cost of the projects identified for funding from this source amounts to \$612 million.

**TABLE 2A
MAJOR CIVIC PROJECTS FUNDED FROM CASINO REVENUE
(\$ million)**

<i>Project</i>	<i>Actual cost to 30 June 1996</i>	<i>Forecast cost to 30 June 2000</i>	<i>Total end cost</i>
Albert Park - Grand Prix race infrastructure and Albert Park improvements	47.9	-	47.9
Museum of Victoria - construction	22.3	227.7	250.0
Melbourne Exhibition Centre -			
• Land acquisition	10.2	.4	10.6
• Construction	133.2	1.0	134.2
• Bridge	-	10.5	10.5
National Gallery - building redevelopment		80.0	80.0
State Library Redevelopment -			
• (Phase 1) (a)	22.7	16.3	39.0
• (Phase 2) (a)	0.3	39.7	40.0
Total commitments	236.6	375.6	612.2

(a) The total end cost for the State Library Redevelopment project is shown as \$79 million allocated to date rather than the total of \$187 million approved by the Government for the entire project.

LEGISLATIVE FRAMEWORK

2.17 The *Project Development and Construction Management Act 1994* provides for projects nominated by the Premier to be allocated to agencies for facilitation. Under the Act the *facilitating agency* is given the powers necessary for project delivery, which include the powers to borrow, enter into contracts, and acquire and dispose of land.

2.18 The Governor-in-Council, on the recommendation of the Premier, has nominated a number of major civic projects under the Act, including those announced at the initial Agenda 21 launch. Responsibilities and powers for many other major civic projects previously managed by the Office of Major Projects, operating under the powers of the *Urban Land Authority Act 1979*, have been transferred to the Secretary of the Department of Infrastructure, the facilitating agency. Under this arrangement, the Minister for Planning and Local Government is responsible for the projects.

2.19 The Act also establishes the Secretary of the Department of Infrastructure as a body corporate and provides for standards to be set and directions to be issued in relation to public construction. Directions issued under the legislation include the Code of Practice for the Building and Construction Industry issued in July 1994. The Code describes minimum standards of acceptable practice for the industry in its dealings with the Government and applies to all building and construction work managed or fully or partly-funded by the Government.

ADMINISTRATIVE ARRANGEMENTS

Budget and Expenditure Review Committee

2.20 The Government’s Budget and Expenditure Review Committee provides advice on all matters associated with the budget sector capital works planning process including the selection and funding of new works which meet the priorities of the Government in the context of the overall budget strategy. The Committee also monitors that departmental capital outlays are consistent with Government asset management policy and criteria.

Central agencies

Department of Treasury and Finance

2.21 The Department of Treasury and Finance is responsible for co-ordinating the Government’s annual capital works budget and planning process. Submissions from agencies for funding new capital works are to be assessed and prioritised on an across-government basis by the Department and forwarded to the Budget and Expenditure Review Committee for consideration of the annual capital works allocations. The Department also monitors agency expenditure against the allocations, on a global basis.

2.22 The Department of Treasury and Finance prepares forecasts of the Government’s casino revenue and provides data to the Budget and Expenditure Review Committee for monitoring purposes. In this way, the Committee ensures that commitments to projects funded from casino revenue do not exceed the estimated available revenue.

.....

Department of Premier and Cabinet

2.23 The Department of Premier and Cabinet provides policy input and strategic advice on infrastructure projects, including major civic projects, to the Premier and the Government. The Department is responsible for monitoring progress against policy commitments and for co-ordinating Government activities in relation to major projects through the application of the *Project Development and Construction Management Act 1994* or the development of project specific legislation.

2.24 The Department also provides assistance to the Premier as Minister responsible for administration of the Community Support Fund.

Office of Major Projects

2.25 According to pre-election statements of the Government, facilitation of large projects was to be the role of the Office of Major Projects, within the Department of Infrastructure, “... with a brief to assist in eliminating the bureaucratic hurdles and unnecessary delays that are stifling valuable growth opportunities”.

2.26 The Office facilitates project delivery of Agenda 21 projects and other nominated complex construction and development projects on behalf of the Government. The Office operates within delegations from the Secretary of the Department under the *Project Development and Construction Management Act 1994*.

2.27 The project delivery activities of the Office require interaction with the public and private sectors with considerable reliance on the private sector to provide consultant and contract resources.



Part 3

Conduct of the audit

AUDIT OBJECTIVES

3.1 The overall objectives of the audit of major civic projects were to determine whether:

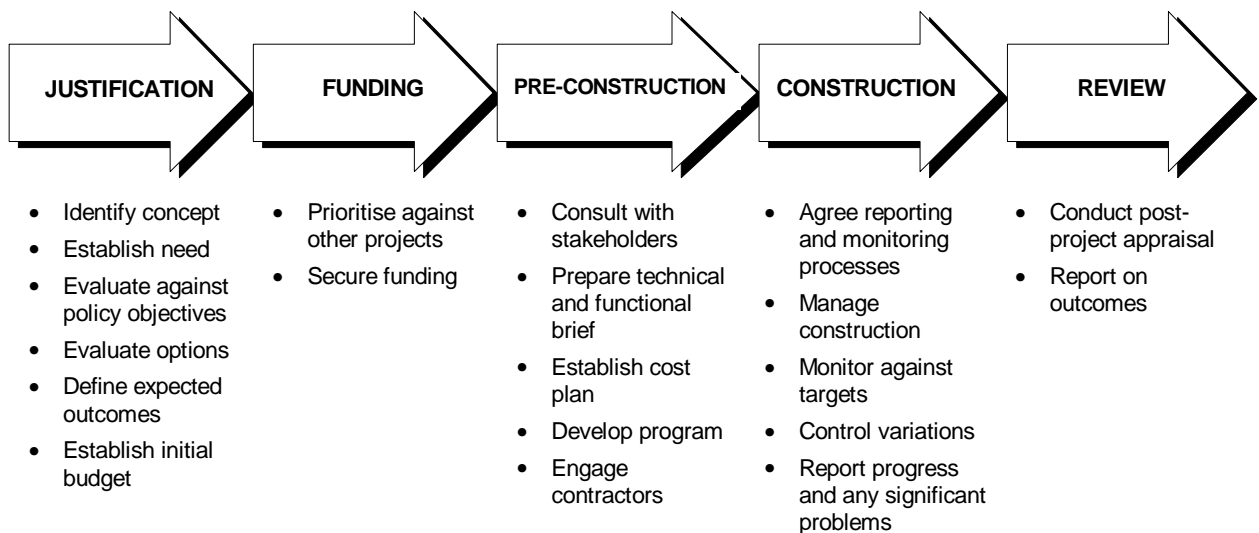
- a framework is in place which facilitates the prioritisation of projects in line with government policy objectives, provides suitable guidance to individual agencies and incorporates overall monitoring by central agencies;
- roles and responsibilities across government agencies have been clearly defined, are conducive to efficient delivery of projects and have been effectively managed;
- selected projects were appropriately justified, efficiently planned and managed, and have met expected outcomes; and
- selected projects have been managed with due regard to accountability and propriety.

SCOPE OF THE AUDIT

Areas of examination

3.2 The key phases and specific procedures associated with the delivery of capital works, such as major civic projects, are illustrated in Chart 3A.

**CHART 3A
KEY PHASES OF PROJECT DELIVERY**



3.3 The audit comprised an overall evaluation of the practices adopted within each of these phases. This included an assessment of the framework established by the Government for justifying and prioritising capital works proposals within its funding constraints.

3.4 The following specific projects, covering both completed projects and those in progress, were selected as case studies for more detailed examination:

- Melbourne Exhibition Centre;
- Melbourne Sports and Aquatic Centre;
- Regent Theatre refurbishment; and
- State Library Redevelopment (Phase 1).

3.5 An overview of the 4 projects, together with an outline of the scope of the audit coverage for each project, follows.

Melbourne Exhibition Centre

Background

3.6 The Melbourne Exhibition Centre, located at Southbank adjacent to the Yarra River, was substantially completed in December 1995 after a construction period of around 15 months. It provides 30 000 square metres of exhibition space and has replaced the Royal Exhibition Building in Carlton Gardens as the leading Melbourne venue for trade and business exhibitions and major events.



Entrance to the new Melbourne Exhibition Centre adjacent to the Yarra River.



Funding

3.7 The project was substantially funded from the proceeds from the issue of a casino licence and gambling revenue from Melbourne’s temporary casino.

Cost

3.8 The total cost to the Government of delivering the Melbourne Exhibition Centre on the Southbank site is estimated at around \$170 million, including construction costs of \$129 million and land consolidation costs of \$26 million.

Management arrangements

3.9 The project was managed by the Office of Major Projects on behalf of the Department of State Development. The Melbourne Exhibition Centre Trust (recently renamed the Melbourne Convention and Exhibition Trust) was established in August 1994 to operate the Melbourne Exhibition Centre. The Trust assigned responsibility for the day-to-day operations of the Centre to a private company already engaged to manage the World Congress Centre (recently renamed the Melbourne Convention Centre).

Audit coverage

3.10 The audit examined:

- the extent and nature of evaluation and analysis undertaken prior to the approval of the project;
- the management of the design and construction phases;
- the extent to which the project met time, cost and quality targets; and
- the extent to which expected broader government outcomes have been achieved to date.

Melbourne Sports and Aquatic Centre

Background

3.11 In June 1995, the Melbourne Sports and Aquatic Centre Trust was established to oversee the planning, design and construction of a facility to be built at Albert Park to replace existing sporting facilities in the area and at the State Swimming Centre located on the fringe of the Melbourne Central Business District. The facility is to provide a 6.2 hectare multi-purpose sporting and leisure facility which will include a range of pools, a show court with 1 000 seats, basketball, badminton and table tennis courts, a squash centre, a gymnasium, a sports medicine clinic and a creche. The project is expected to be completed in June 1997.

Funding

3.12 Funding for the project has largely been provided from the Community Support Fund with additional funds provided by the City of Port Phillip and from other State revenue.



Cost

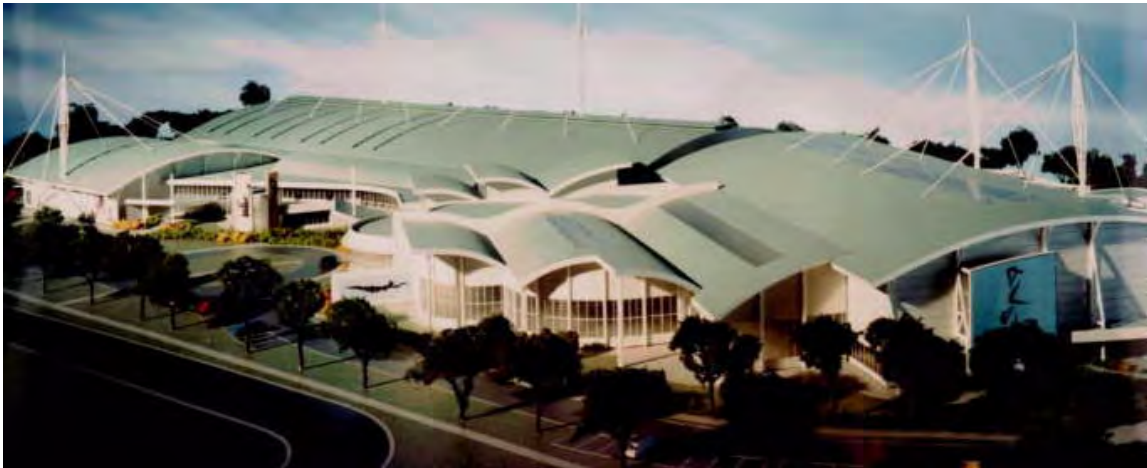
3.13 A budget of \$65 million was established for the project. Expenditure to 31 December 1996 amounted to \$41 million.

Management arrangements

3.14 The project is managed by the Office of Major Projects on behalf of the Department of State Development and the Melbourne Sports and Aquatic Centre Trust. The Trust will be responsible for the day-to-day operations of the Centre once it is completed.

Audit coverage

3.15 Audit coverage was directed at the justification and approval of the project in addition to the management, to date, of the design and construction phases.



Model of the proposed Melbourne Sports and Aquatic Centre.

Regent Theatre refurbishment project

Background

3.16 The Regent Theatre, located in Collins Street, Melbourne, was constructed in the late 1920s and was closed to the public in July 1970. The Theatre was purchased by the Melbourne City Council in 1969 for inclusion in a proposed development of the adjacent City Square. Plans by the Council at the time to demolish the Theatre were thwarted by union action and community opposition.

3.17 Over the next 2 decades it remained vacant and various proposals to redevelop the Theatre and City Square sites were approved by the Council but were discontinued at the planning phase. During this period, the Theatre was included on the State's Register of Historic Buildings.

3.18 In 1992, evaluations and negotiations were commenced by the Council in relation to a proposal involving the refurbishment of the Theatre and the construction of a hotel on part of the City Square site. The Council subsequently approved the proposal and sought assistance from the State Government in funding the project.

3.19 In April 1994, the Regent Management Company, which is jointly owned by the Government and the Melbourne City Council, was incorporated and contractual arrangements in relation to the project were entered into between the Company and a private developer. The refurbishment commenced in May 1994 and the Theatre was officially opened in August 1996. Plans for the construction of a hotel on the City Square site have not yet been finalised.



Refurbished Regent Theatre officially opened in August 1996.



Funding

3.20 The costs of refurbishing the Regent Theatre were substantially met from a contribution of \$12.5 million each by the Melbourne City Council and the Government. The Council's contribution was funded from the proceeds of the sale to the developer of an area of the City Square. The Government's contribution was funded from the proceeds of the sale to the developer of the Queen Victoria Hospital site.

Cost

3.21 Details of the total costs of the project to the Government and the Melbourne City Council have not yet been finalised. However, audit estimates that they will be in the range \$28 to \$30 million.

Management arrangements

3.22 The Regent Theatre refurbishment has been managed by the Regent Management Company.

Audit coverage

3.23 The audit examinations covered:

- the approval of the project by the Treasurer and the Minister for Local Government under section 193 of the *Local Government Act 1993*;
- the management of the refurbishment by the Regent Management Company; and
- the extent to which expected outcomes of the project have been achieved including time, cost, quality and broader government objectives.

3.24 Audit examinations did not extend to assessing the decision-making processes followed by the Melbourne City Council prior to approving the project and selecting the preferred developer.

State Library Redevelopment (Phase 1)

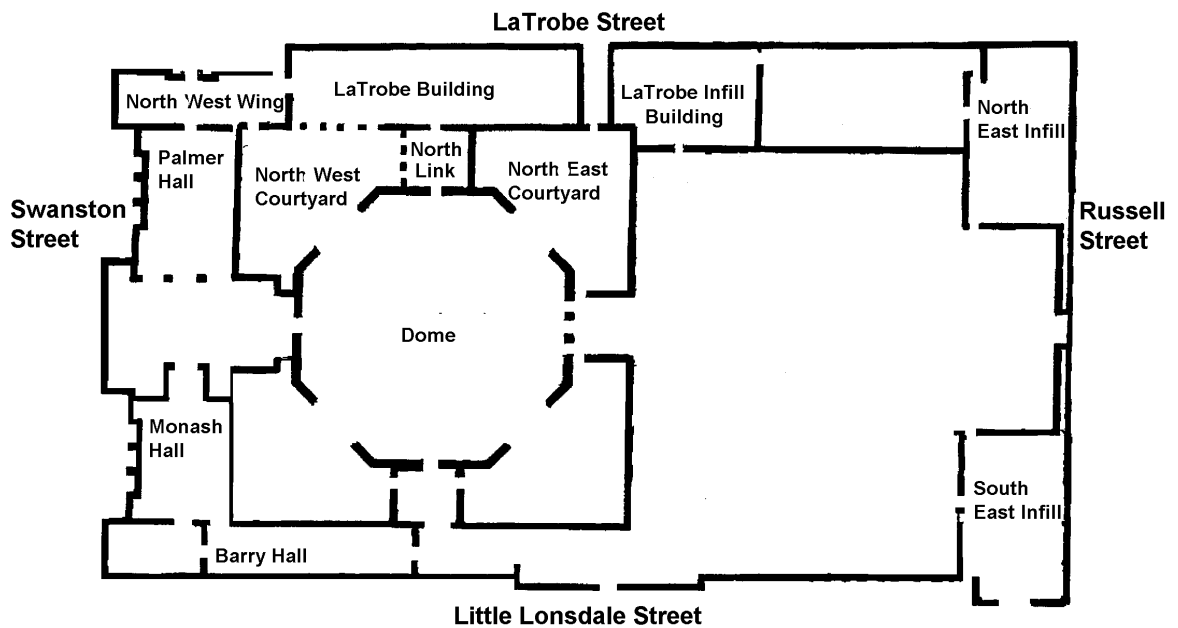
Background

3.25 In February 1988, the then Minister for the Arts announced a redevelopment which included the expansion of the State Library of Victoria to occupy space utilised by the Museum of Victoria, located on the same site. The project was to involve the refurbishment of the existing buildings and construction on 3 vacant areas of the site to create additional space. The Museum was to be relocated to Southbank. Work on the new Museum and the State Library Redevelopment, which began in November 1990, was in progress at the time of the October 1992 State election.

3.26 In May 1993, the Premier announced the Government's commitment to the project. However, the site for the relocated Museum was changed to the Carlton Gardens, in line with pre-election policy statements.

3.27 Phase 1 of the State Library Redevelopment, under the current Government, commenced in late 1993 and is scheduled for completion during 1997. This Phase includes refurbishment of the LaTrobe Building, the North Link and Palmer Hall as well as construction of the LaTrobe Infill Building, and the North West and North East Courtyards. The location of these components of the Library are highlighted in Chart 3B. Completion of the redevelopment of the entire site will not be possible until after the year 2000 when the Museum is expected to be relocated to the new facilities now under construction in the Carlton Gardens.

**CHART 3B
STATE LIBRARY OF VICTORIA LAYOUT, GROUND LEVEL**



Funding

3.28 The project has been funded from the proceeds from the issue of a casino licence and gambling revenue from Melbourne's temporary casino. In March 1990, the Library Board of Victoria launched a public appeal for funds to supplement the Government's contribution to the project.

Cost

3.29 Costs amounting to around \$20 million were spent on the project by the former Government. The current Government approved an additional budget of \$187 million in May 1993. Costs for Phase 1 undertaken by the current Government amounted to \$27 million at 31 December 1996, compared with a budget of \$39 million.



Management arrangements

3.30 The project has been managed by the Office of Major Projects on behalf of the Department of Premier and Cabinet, which incorporates the Arts portfolio, and the Library Board of Victoria which is responsible for the day-to-day operations of the Library.

3.31 A difficult feature of managing the redevelopment has been that both the Library and the Museum have continued to occupy the site and operate during the works. At times, this has required the temporary relocation of parts of the Library's operations off-site or elsewhere in the building.

Audit coverage

3.32 The major focus of the audit coverage was on the management of the Phase 1 design and construction phases and on assessing the extent to which time, cost and quality outcomes had been achieved to date.

Agencies subject to audit

3.33 The audit comprised examinations within the following agencies:

- Department of Infrastructure (incorporating the Office of Major Projects and the Office of Local Government);
- Department of Premier and Cabinet (incorporating Arts Victoria);
- Department of State Development;
- Department of Treasury and Finance; and
- Regent Management Company (including the records maintained by a private sector firm engaged to act as the Company's representative during the refurbishment of the Regent Theatre).

3.34 During the course of the audit, discussions were also held with the Library Board of Victoria, the Melbourne Convention and Exhibition Trust, and the Melbourne Sports and Aquatic Centre Trust. Certain staff responsible for capital works planning within the transport, health and education portfolios were also canvassed.

Period of audit coverage

3.35 The audit covered the period from October 1992 to June 1996 and significant developments since that date.

Compliance with auditing standards

3.36 The audit was performed in accordance with Australian Auditing Standards applicable to performance audits and accordingly included such tests and other procedures considered necessary in the circumstances.

SPECIALIST ASSISTANCE

3.37 Specialist advice was provided to the audit team by Mr Allan Pizzey of Pizzey Noble Pty Ltd. The advice primarily assisted in identifying best practice in relation to the management of major capital works projects. Mr Pizzey has 28 years experience in the building and development industry and a further 14 years specialising in project management, construction management and building consultancy.

3.38 Quadrant Research Services (Vic.) Pty Ltd was also engaged by audit to conduct a survey of exhibition organisers and provide analysis of the results. Details of the survey, conducted in October 1996, are set out in Chart 3C.

**CHART 3C
SURVEY OF EXHIBITION ORGANISERS**

Purpose of survey	<p>To assess the extent to which the Government's objectives in establishing the Melbourne Exhibition Centre have been achieved to date.</p> <p>To determine whether features of the Melbourne Exhibition Centre are in line with the requirements identified by an industry advisory group established at the design phase of the project.</p>
Survey method	<p>A telephone survey method was chosen as the most cost and time effective method of obtaining both qualitative and quantitative information.</p> <p>Twelve in-depth interviews of exhibition organisers were conducted to assist in determining the content of telephone interviews.</p>
Survey population	<p>A census approach was taken with the survey covering all 60 exhibition organisers identified.</p>
Profile of respondents	<p>The survey targeted interstate and intrastate exhibition organisers, rather than individual exhibitors, given their experience with a number of venues. Interviews covered organisers who had used the Melbourne Exhibition Centre as well as some who had not.</p>



Part 4

Justification and funding



OVERVIEW

4.1 A range of significant capital works planning reforms were initiated in 1993 aimed at enabling the Government to more effectively consider options, establish priorities and apply capital funds in ways that best meet its objectives and ensure value-for-money. While anecdotal evidence indicates that the requirements introduced at that time have been adopted, the absence of an audit trail prevented substantiation of the basis on which certain funding recommendations were made to the Government by the Department of Treasury and Finance.

4.2 The Government’s Budget Papers since 1993 indicate that, prior to approval, all capital works projects are to be evaluated in line with government guidelines and subject to review by the Budget and Expenditure Review Committee, irrespective of their funding source. There is a need to clarify requirements in this area as, in practice, significant funds are allocated outside the stated processes.

4.3 While each of the selected projects was approved or endorsed by the Government, 3 had not been subject to a feasibility study, prior to approval. While not second-guessing the decisions of the Government to approve the projects, the basis on which the decisions were made is questioned. In line with sound asset management principles, it is considered that the results of a feasibility study should be available to the Government for all projects as part of the information necessary to assist in the decision-making process.

4.4 Action was taken to ensure the risks to the Government and the Melbourne City Council of any cost overruns on the Regent Theatre refurbishment were minimised. However, the risks that the Theatre would not be viable and that the City Square component of the project would not proceed, were not fully addressed. To enable the refurbishment to be achieved, certain payments to the developer of around \$3.4 million, not directly linked to the costs of refurbishing the Theatre, were also agreed to as part of the contractual arrangements.

4.5 The Government’s objective of financing major civic projects without borrowings or expenditure from the current account has been substantially achieved for the selected projects. In some cases, data supporting the level of funds allocated to each project was inadequate.

CAPITAL WORKS POLICY FRAMEWORK

4.6 Significant reforms initiated by the Department of Treasury and Finance in 1993 included the issue of guidelines requiring agencies to appraise all capital works proposals in terms of their investment potential, cash flow impact and financial viability. The Guidelines also recognised the need to consider and analyse social costs and benefits expected to flow from proposed projects. Enhanced guidelines, in the form of the Investment Evaluation Policy and Guidelines, were released in September 1996 with the aim of adding more rigour to the evaluation of project investment options. They included a methodology for considering socio-economic impacts.

4.7 Requirements were also introduced in 1993 for agencies to rank their annual capital works proposals and forward them to the Department of Treasury and Finance to be assessed against Statewide criteria and prioritised on a whole-of-government basis. In the case of projects expected to cost more than \$5 million, proposals are to be accompanied by a detailed investment evaluation to support the ranking assigned by the agency.

4.8 On the basis of the prioritisation process, the Treasurer submits a recommended annual program of new capital works to the Government, after review by the Budget Expenditure Review Committee, along with a listing of projects defined as “*non-recommended*” or “*unsuccessful*”. The submission is used to assist the Government in reaching funding decisions.

4.9 The concepts embodied in this framework are in line with sound capital works planning processes in that they have a clear focus on establishing the need for each project, considering various alternatives for achieving desired outcomes and ensuring available funds are utilised in the most cost-effective manner.

APPLICATION OF GUIDELINES

4.10 Discussions with staff responsible for planning capital works within the portfolios of health, education and transport indicated that there was general support for and commitment to applying the guidelines issued by the Department of Treasury and Finance.

4.11 The application of the guidelines could be further enhanced if the Department implemented procedures to assess the veracity of information provided by agencies in submissions and periodically assess the level of compliance with the guidelines. As part of a continuous improvement framework, it is considered that the effectiveness of the initial guidelines in achieving capital works objectives should also have been evaluated prior to the development of the Investment Evaluation Policy and Guidelines. Audit examinations indicated that such assessment and evaluation procedures were not evident at the time of the audit.

PRIORITISATION OF PROJECTS

4.12 With the aim of ensuring projects are assessed in line with the Government’s overall objectives, the Department of Treasury and Finance develops Statewide criteria for each annual round of funding, for use in prioritising agency submissions.



4.13 Discussions with departmental officers indicated that the prioritisation process has involved extensive internal discussions, meetings and referral back to agencies. However, there was a lack of more concrete evidence in the form of documentation to support the processes followed. In particular, a summary of the analysis undertaken to arrive at a final ranking assigned to each project by the Department was not held for either 1994-95 or 1995-96. In addition, of a sample of 38 of the 370 projects considered in the prioritisation processes in those 2 years:

- submissions from agencies were not available in relation to 13 projects, including 8 recommended by the Department for funding;
- of 12 approved projects which were expected to cost more than \$5 million, only 2 were accompanied by a detailed investment evaluation;
- it was not clear how some submissions which did not conform with the guidelines and did not specifically address the criteria established for funding approval were assessed by the Department alongside conforming submissions; and
- a \$9 million refurbishment project proposed by the Department of Treasury and Finance, which was recommended for funding, was not supported by documentation demonstrating that an assessment had been undertaken in line with the Department's own guidelines.

4.14 In the absence of an audit trail, it was not evident how certain projects were ranked by the Department ahead of others or whether the Treasurer's recommendations, which are used as an input into the Government's annual capital works approval decisions, reflected the Statewide funding criteria.

4.15 In comparison, individual agencies canvassed were found to have well documented planning processes which substantiated that a rigorous process was followed to arrive at the project rankings submitted to the Department of Treasury and Finance.

JUSTIFICATION OF THE SELECTED PROJECTS

Compliance with policy statements

4.16 The Government's policy published in successive Budget Papers since 1993 has stated that all capital works proposals are subject to the same appraisal and prioritisation process, irrespective of the funding source. In contrast, audit found that none of the 4 projects selected for detailed examination had been assessed in line with guidelines issued by the Department of Treasury and Finance, evaluated against Statewide criteria or prioritised by the Department of Treasury and Finance against other proposals.

4.17 The Department advised that, in practice, certain capital works projects, such as those funded from casino revenue and the Community Support Fund, are subject to separate processes at a Government or Ministerial level.



4.18 The Department of Premier and Cabinet has also advised that in issuing guidelines, the Government does not remove its right to make some capital works decisions outside the process it has established. While accepting the need for flexibility in the use of guidelines in exceptional cases, it was observed that over the 3 year period to 30 June 1996, projects amounting to only \$980 million of the total \$2.2 billion of State funds allocated to new capital works were subject to the prioritisation process of the Department of Treasury and Finance. As the current policy of the Government is to target all new capital works expenditure at 1.25 per cent of Gross State Product, the more funds allocated through these alternate processes, the less funds are available for projects which have been formally assessed and prioritised by the Department of Treasury and Finance.

4.19 Given the difference between public policy statements and actual procedures followed, there is a need to clarify requirements in this area. In particular, the circumstances where it is considered not necessary to undertake an investment appraisal in line with government guidelines or to prioritise a project against other proposals should be more clearly defined and publicly disclosed.

Preparation of feasibility studies

4.20 While each of the 4 selected projects had been approved or endorsed by the Government, only one, the Melbourne Sports and Aquatic Centre, had been subject to a detailed feasibility study prior to its announcement or approval. While the appraisal undertaken in this case did not conform with some aspects of the guidelines issued by the Department of Treasury and Finance, it provided sufficient information to the Government to make an informed decision.

4.21 In the case of the Regent Theatre refurbishment and City Square development, in-principle support was given by the Premier in early 1993 in letters to the developer. The project was publicly announced by the Premier in January 1994 and subsequently ratified by the Government in May 1994 after contractual agreements between the developer and the Regent Management Company had been finalised. The feasibility of the project was not fully assessed by the Government prior to providing in-principle support. Similarly, feasibility studies supporting the May 1993 decision of the Government to endorse the Melbourne Exhibition Centre and State Library Redevelopment projects under the Agenda 21 program were not evident. In fact, detailed feasibility studies were not undertaken at later stage for the projects.



4.22 The Department of Premier and Cabinet expressed the view that it was not appropriate to undertake a feasibility study in relation to the State Library Redevelopment given that it was proposed as part of the Government's election platform. Similar advice was provided in relation to a March 1996 decision of the Government to allocate \$10.5 million for the construction of a pedestrian linkage across the Yarra River between the Melbourne Convention Centre and the Melbourne Exhibition Centre. Such a linkage had been announced in May 1993 as part of the Melbourne Exhibition Centre project and was also included in the Government's 1996 election campaign. The Department of State Development advised that in these circumstances it was not seen as necessary to evaluate various other options to link the facilities, such as the redevelopment of Spencer Street Bridge, or to collect market research and conduct impact studies to assist in the decision-making process.

4.23 While the Government's pre-election policy statements established the broad framework for the projects, they did not in themselves establish the need for the facilities or form a sound basis for all associated funding and prioritisation decisions. In addition, they did not support selected options relating to location and size of the facilities.



Melbourne Exhibition Centre and Melbourne Convention Centre located on opposite sides of the Yarra River.



4.24 While not questioning the decisions of the Government to approve the projects, it is considered that the information available to the Government on which to base its decisions was deficient. In this regard, it is considered that the results of a feasibility study for all major capital works projects should be available to the Government along with any other information considered necessary to assist in the decision-making process. Such studies should evaluate the expected costs and benefits of the project and consider other means of achieving desired outcomes. Establishing the need for a project and assessing the feasibility of various options is in line with the sound asset management principles outlined in the Government's *Asset Management Series* issued in 1995.

Approval of Regent Theatre under Local Government Act

Risk assessment

4.25 In accordance with the requirements of section 193 of the *Local Government Act* 1983, the Regent Theatre and City Square project required approval of the Treasurer and the Minister for Local Government. Prior to giving such approval, analysis did not constitute a feasibility study but focused on identifying and minimising risks to the Government and the Melbourne City Council of the Regent Theatre refurbishment component of the project. This analysis was undertaken after in-principle support had been given to the project by the Premier and prior to the finalisation of contractual agreements.

4.26 A due diligence report prepared for the Office of Major Projects in December 1993 identified a number of specific risks which needed to be reduced or eliminated. The Department of Treasury and Finance, in conjunction with the Office of Local Government, undertook considerable work in this regard and as a result the majority of the risks associated with any cost overruns were assigned to the developer in the final contractual agreements. However, certain risks remained with the Government and the Council, including:

- The risk that the refurbished Regent Theatre, which was to be used for small productions and movies, would not be viable and that the developer would not be able to meet financial commitments under an agreement to lease the refurbished theatre for 50 years. A business plan for the Theatre, supported by market research canvassing the demand for, and supply of, theatre facilities within the Melbourne Central Business District, was not prepared; and
- The risk that the City Square component of the project would not proceed even though it was seen by the Government and the Melbourne City Council as important to the total project and to the financial viability of the ballroom area of the Regent Theatre. There was no irrevocable commitment by the developer within the agreements to construct a hotel on the City Square site and funding of this component of the project was not assured. In these circumstances, it may have been more appropriate for the refurbishment of the Regent Theatre to have been evaluated and negotiated with the developer as a stand-alone project.

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Additional payments made to the developer

4.27 The final contractual agreements between the Regent Management Company and the developer approved by the Treasurer and the Minister for Local Government in April 1994 detailed the costs of various components of the refurbishment works. The agreements also provided for the following payments to the developer which were not related to the actual refurbishment costs:

- Interest on the unexpended balance of the \$25 million contributed by the Government and the Melbourne City Council. The \$25 million was to be paid to the Regent Management Company prior to the commencement of the refurbishment and held in a separate bank account. Interest on the unexpended Government and Council contributions was to be paid quarterly to the developer during the refurbishment, on the basis of an agreed formula; and
- Payment of \$725 000, plus interest, to the developer on completion of the refurbishment by the agreed date.

4.28 The Department of Treasury of Finance advised that these payments, which were expected at the time to amount to approximately \$2.8 million and have eventually amounted to around \$3.4 million (comprising \$725 000 plus interest of \$100 000 and interest on the unexpended balance totalling \$2.6 million), could not be directly linked to the benefits received by the Government and the Melbourne City Council from the project. They were agreed to as part of what were considered by the Department to be difficult negotiations with the developer.

4.29 Although the payment of \$725 000 was claimed by the developer as an allowance for accelerated settlement of the Queen Victoria Hospital site, the Government's discounted sale price of that site had already over-compensated for this early settlement (refer to paragraph 4.44 for further information).

Approval of Variation Agreement

4.30 In June 1996, a Variation Agreement was approved by the Treasurer and the Minister for Local Government under section 193 of the *Local Government Act* 1983. The Agreement contained provisions primarily relating to a reduction in previously agreed rental payments and funding by the developer of major alterations to the fly tower and stage area of the Theatre to enable large productions to be staged.

4.31 In assessing the Variation Agreement, the major considerations of the Department of Treasury and Finance and the Office of Local Government were to ensure that the Regent Management Company would be able to meet future cash flow requirements and that no further contributions would be required from the Company's shareholders. However, the variations, which in effect resulted in a further contribution of \$2.5 million by the Regent Management Company to the refurbishment, were not justified by the Department and the Office on a commercial basis. Market research was not undertaken to substantiate that an expanded theatre able to hold large productions would be more viable than one catering for small productions and movies, as initially planned.

Reporting and monitoring

4.32 Sound arrangements were established by the Office of Local Government and the Department of Treasury and Finance for monitoring the Regent Theatre refurbishment under section 193 of the Act. Monthly reports on the progress of the refurbishment were usually received in a timely manner. Strong overview by the Office and the Department was also evident in relation to a number of amendments to the initial agreements requiring approval under the Act.

FUNDING OF SELECTED PROJECTS

4.33 Government policy statements issued at the time the Agenda 21 program of major civic works was announced indicated that projects were to be funded without borrowings or expenditure from the current account. Audit found that this policy objective had been substantially met in relation to the selected projects. Specific funding issues relating to the projects follow.

Melbourne Exhibition Centre

4.34 A working party, comprising representatives of the Department of Treasury and Finance, the Office of Major Projects and the former Department of Arts, Sports and Tourism, recommended funding of \$109 million for the construction of the Melbourne Exhibition Centre. There was no evidence, such as an initial cost plan, to support the recommendation or the May 1993 Government decision to approve a higher funding level of \$120 million.

4.35 During the tender negotiation process with the building contractor, features to the value of around \$12 million were deleted from the tendered scope of works to enable the project to be completed within the approved \$120 million. There was an understanding that further funding would be sought at a later date to restore the deleted features. A submission prepared by the Department of State Development after construction commenced, sought additional funding of \$11.8 million in order to improve functionality and ensure the Centre was a world class facility. The funding was to cover some items initially deleted and, according to the Department's submission, enhancements "... that could not be fully defined at the time the tenders were let". In response to the submission, additional funding of \$9 million was approved.

4.36 The tight deadline established by the Government of opening the Melbourne Exhibition Centre in early 1996 worked to prevent the Department seeking the additional funds prior to signing up the builder. It was feared that any delay in commencing construction would impact on achieving the target completion date. This situation has contributed to additional project costs as some items were subsequently reinstated at a higher cost than initially specified by the builder.

4.37 The total design and construction costs of \$129 million were met from revenue generated from Melbourne's casino. A further \$41 million associated with delivering the project on the Southbank site was provided partly from casino revenue and partly from other State revenue (refer to Section 7 of this Report for further details).

Melbourne Sports and Aquatic Centre

4.38 A proposal from the former Department of Arts, Sport and Tourism established the level of funding for the Melbourne Sports and Aquatic Centre at \$52 million, based on cost estimates provided by quantity surveyors. Funding of \$43.5 million initially provided from the Community Support Fund was later supplemented by a further \$13 million from the Fund, based on revised estimates of \$65 million. Of the remaining funds, \$3.5 million has been committed to the project by the City of Port Phillip and \$5 million has been provided from other State revenue.

Regent Theatre

4.39 Successive *Reports of the Auditor-General on the Finance Statement* in 1992, 1993 and 1994 included comments in relation to the sale by the Government of the Queen Victoria Hospital site. The site covers an area of 1.9 hectares bordering Lonsdale, Swanston, Little Lonsdale and Russell Streets in the Melbourne Central Business District.

4.40 The original sale arrangements involved a price of \$24.2 million, payable as follows:

- an initial deposit of \$100 000 at the date of sale;
- \$1.1 million in July 1992;
- \$1.2 million in December 1992; and
- \$21.8 million in June 1999.

4.41 The purchaser subsequently entered into a joint venture arrangement with a third party, forming a development company, to facilitate the development of the site.

4.42 In late 1992, the developer submitted a proposal involving the Government accepting a net present value cash consideration for the Queen Victoria Hospital site and the Government applying \$12.5 million of the sale proceeds towards the refurbishment of the Regent Theatre. At the time, instalments due in July and December 1992 totalling \$2.3 million had not been paid by the developer.

4.43 In response, the Premier indicated in January 1993 that before making a financial commitment, the Government would need to be satisfied that the entire Regent Theatre and City Square project would proceed and as such it required the developer to:

- pay the \$2.3 million outstanding by 15 February 1993;
- satisfy the Government by 31 March 1993 that, by the agreed settlement date, the balance of the present value of the Queen Victoria Hospital site, as determined by the Valuer-General, could be paid; and
- satisfy the Government by 31 March 1993 that funding could be secured for the Regent Theatre and City Square project.



4.44 In March 1993, the developer paid \$2.4 million to the Consolidated Fund for instalments due on the sale of the Queen Victoria Hospital site and the interest relating to delays in payments. As previously indicated in the 1994 *Report of the Auditor-General on the Finance Statement*, the sale was finalised in April 1994 with a further payment by the developer of \$12.5 million. The payment was based on a February 1993 net present value calculation of the outstanding principal of \$21.8 million, originally due in 1999. However, a revised calculation which took into account the 14 month difference in the settlement date and changes in interest rates over the period was not undertaken by the Government at the time of settlement in April 1994. It is estimated that, as a result of these changes, the receipt of \$12.5 million represented at least \$750 000 less than the net present value of the outstanding balance due from the developer.

4.45 The final payment of \$12.5 million received by the Government was used to fund its contribution to the Regent Theatre refurbishment. The \$12.5 million contribution to the refurbishment from the Melbourne City Council was funded from the proceeds of the sale to the developer of part of the City Square site.

State Library Redevelopment

4.46 In May 1993, a total budget of \$187 million for the State Library Redevelopment was endorsed by the Government. To date, funds totalling \$79 million have been made available progressively to cover Phases 1 and 2 of the project. The decision to fund the project to a level of \$187 million was based on a cost plan developed by the previous Government. However, revised costings, taking into account components of the project which had already been completed at a cost of \$20 million, were not prepared at the time of the current Government's endorsement of the project. Similarly, there were no cost plans to support the level of funds provided for the individual phases funded to date.

Part 5

Delivery framework



OVERVIEW

5.1 There is scope to review the current project delivery framework with the aim of providing clearer lines of accountability and eliminating any areas of inefficiency. In undertaking such a review attention needs to be given to clarifying the roles and responsibilities of the various agencies involved and the nature of their inter-relationship.

5.2 The Office of Major Projects plays a key role in facilitating project delivery on behalf of the Government. However, there is a need to assess whether some of the tasks currently performed by the Office, which have been clearly identified as project management functions in some other public sector frameworks, should be subject to contestability or greater transparency. Consideration should also be given to establishing a relationship between the Office and client or sponsor agencies similar to that which exists within a purchaser/provider model.

5.3 Reporting and monitoring the progress of projects and accounting for outcomes in terms of time, cost, quality and broader government objectives needs to be strengthened.

ROLES AND RESPONSIBILITIES

Project specific framework

5.4 In addition to the functions performed by central agencies in relation to capital works approval and funding, a project delivery framework is established for each major civic project. In the case of the Regent Theatre refurbishment, the Regent Management Company was established to own the Theatre on behalf of its shareholders, manage the refurbishment phase and operate the refurbished Theatre.

5.5 For each of the 3 remaining projects, the framework included:

- A *facilitating agency* nominated under the *Project Development and Construction Management Act 1994*;
- A *sponsor agency* which was allocated project funds and has responsibility for broad policy objectives within the relevant portfolio. Under the *Financial Management Act 1994*, the Secretary of the sponsor agency is accountable for expenditure against a project budget; and
- A *client agency* which is not directly funded from within the budget sector but is responsible under its enabling legislation for the management of the completed facility and for its operational outcomes.



5.6 The agencies allocated these roles for the 3 projects are set out in Table 5A.

**TABLE 5A
AGENCIES RESPONSIBLE FOR SELECTED PROJECTS**

<i>Project</i>	<i>Sponsor agency</i>	<i>Client agency</i>	<i>Facilitating agency</i>
Melbourne Exhibition Centre	Dept of State Development	Dept of State Development (to Aug. 1994) Melbourne Exhibition and Convention Trust (from Aug. 1994)	Office of Major Projects(a)
Melbourne Sports and Aquatic Centre	Dept of State Development	Melbourne Sports and Aquatic Centre Trust	Office of Major Projects(a)
State Library Redevelopment (Phase 1)	Dept of Premier and Cabinet	Library Board of Victoria	Office of Major Projects(a)

(a) Under delegation from the Secretary, Department of Infrastructure.

Lack of definition

5.7 Although the broad responsibilities of each agency are specified in legislation, their specific roles in relation to project delivery have not been clearly defined in that a direction under the *Project Development and Construction Management Act 1994* has not been issued in this regard. Guidance is currently limited to a letter from the Premier to the former Minister for Major Projects in July 1993 indicating that the Office of Major Projects is responsible for facilitating the development of a project on behalf of the responsible agency, once the project has been approved by the Government, and that the sponsor agency is responsible for the completion of the project in line with its set objectives and funding requirements.

5.8 In practice, agencies were found to have different perceptions of their respective roles and responsibilities and, in some cases, there was a degree of overlap and certain gaps in the accountability process. For example, different practices were found in the area of expenditure control and budget management. Accounts for payment on each project are received progressively by the Office of Major Projects and a claim is forwarded monthly to the sponsor agency for approval and payment. While some sponsor agencies regularly monitored expenditure against the budget and checked invoice details prior to approval, the same level of scrutiny was not evident in others.

5.9 In the case of the Melbourne Sports and Aquatic Centre, the Melbourne Sports and Aquatic Centre Trust has responsibility under its enabling legislation to plan, design and construct the facility. The project has also been nominated under the *Project Development and Construction Management Act 1994* giving the Secretary of the Department of Infrastructure responsibility for facilitating project delivery. This situation results in a legislative overlap in responsibilities in relation to completion of the facility.



5.10 Relationships within the framework were found to be more satisfactory where the number of players was reduced, e.g. in the case of the Melbourne Exhibition Centre where one agency performed the roles of client and sponsor during the construction phase and in the case of the Regent Theatre refurbishment where the Regent Management Company had prime responsibility for all aspects of the project. For the State Library Redevelopment (Phase 1), where the roles are divided between the Department of Premier and Cabinet and the Library Board of Victoria, some degree of dissatisfaction with the project delivery framework has led the Board to initiate a review of the project management and organisational arrangements. The review is yet to be completed.

RELATIONSHIPS BETWEEN AGENCIES

5.11 A common understanding of the scope and nature of the activities of the Office of Major Projects as facilitating agency or the relationship between the Office and other agencies was not evident during the audit.

5.12 Client agencies generally saw the role of the Office as providing a service for the fees charged to the project by the Office. This is consistent with the *Project Development and Construction Management Act 1994* which indicates that the facilitating agency is to manage public construction for agencies, by agreement. The Office, on the other hand, saw its role as delivering all aspects of a project in line with the desired outcomes of the Government. As a result, it has taken on a significant role during project delivery with the influence of the client and sponsor agencies less than would be expected in a purchaser/provider relationship between a client and a project manager within the private sector. Agreements between the Office and other agencies, outlining the services to be provided for the fees charged, are not established.

5.13 The clarification of the intended roles and relationships, including consideration of adopting a purchaser/provider model, could avoid differences in expectations and address areas of dissatisfaction expressed by some client agency representatives during the audit. Issues raised related to the large number of parties involved in a project, costs associated with the duplication of roles, communication difficulties and time delays. In the case of the State Library Redevelopment, the client agency indicated that the large number of players involved prevented an accurate determination of the parties responsible for the delays which have occurred on the project to date.

PROJECT CONTROL GROUPS

5.14 The Office of Major Projects establishes a Project Control Group for each project comprising representatives from the client agency (often including the Chief Executive Officer) and the sponsor agency. The Director of the Office, who is the *principal* in terms of the contractual arrangements, is also a member of the Group. Representatives of the project team including contractors, key consultants and the project director assigned to the particular project from within the Office of Major Projects are invited to attend meetings and are required to provide reports to the Group. The Group provides a forum for communication between the parties and for strategic decision-making. It can also play a valuable role in the accountability process.



5.15 The information reported to the Group is determined on an individual project basis. While regular reports had been provided by the project teams for the selected projects, the reports did not always include information integral to providing adequate accountability. Aspects of reports were also not in line with best practice in that some did not:

- detail actual expenditure against budget;
- provide information on actual fees charged by the Office;
- adequately address quality issues such as the contractual requirement for the private sector project manager to make monthly statements on quality;
- bring forward issues raised in subsidiary reports to Executive Summaries or summarise action taken to address the issues raised; and
- include statements from the architects regarding conformance of the construction with design intent and functionality.

5.16 The formalisation of terms of reference or role descriptions could assist in providing direction to the Group and ensuring reports provided by the project team enable individual agencies to meet their legislative responsibilities. This would, in turn, assist in ensuring the full benefits of the arrangement are realised.

PROJECT MANAGEMENT ROLE OF THE OFFICE OF MAJOR PROJECTS
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5.17 The Office of Major Projects performs a range of functions which audit considers fall into the following 2 broad areas of responsibility:

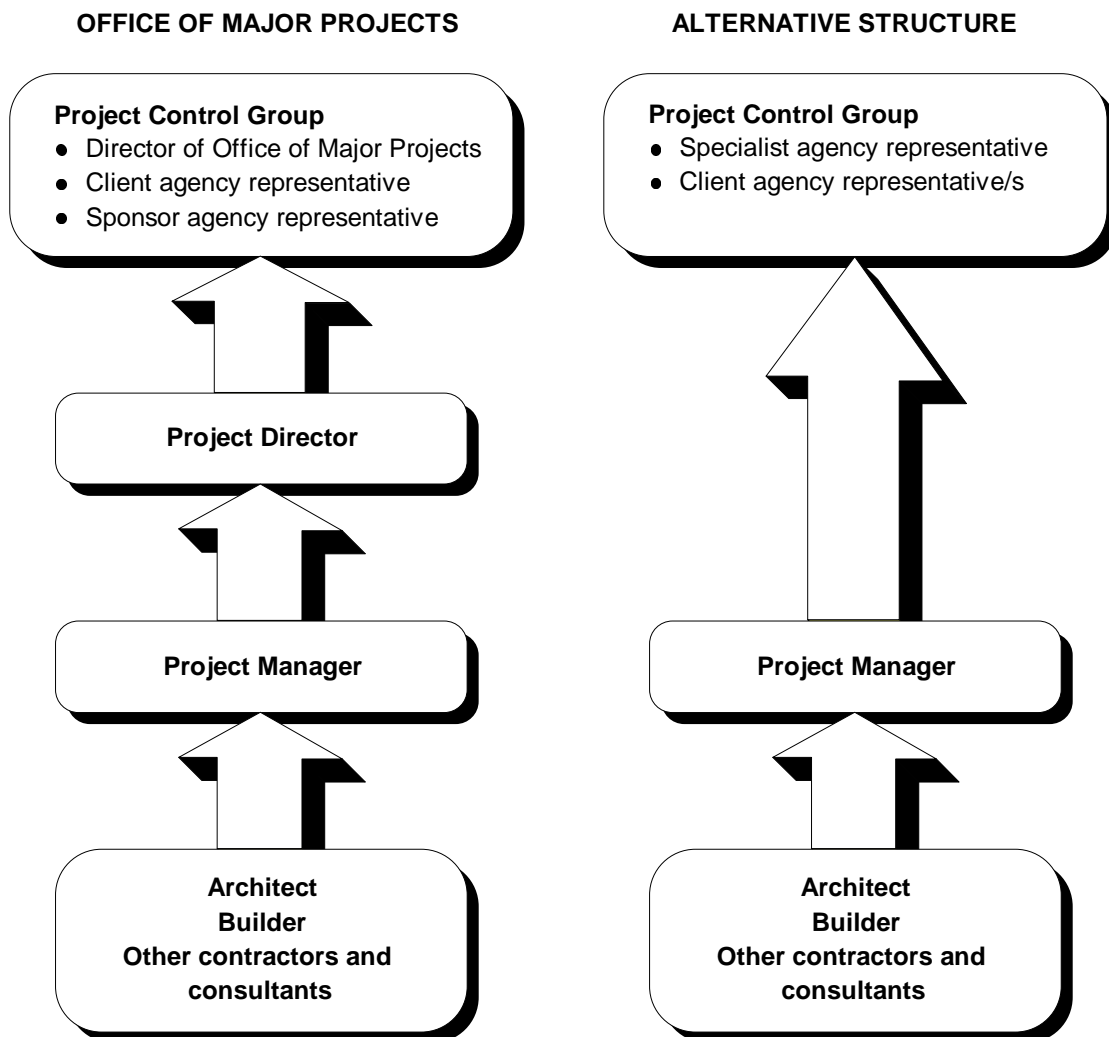
- Functions associated with facilitating projects, such as consolidating sites, liaising between State and local government agencies and taking action it considers necessary to protect the interests of and minimise risks to the Government. These functions are primarily directed at streamlining project delivery and providing a Corporate governance role. The Office is able to play a key role in this area because of its current position within the public sector, the access it has to other agencies and its powers assigned under the *Project Development and Construction Management Act 1994*; and
- Project management functions, including engaging contractors and acting as superintendent for nominated projects. This role is similar to that performed by a project manager within the private sector which is aimed at delivering a project within a client's requirements and ensuring completion on time, within cost and to required quality standards.

5.18 In addition to assigning an internal project director to each project to perform the above functions, the Office engages a private sector project manager to provide superintendence and administrative assistance during the project. This situation adds an extra layer of management to projects during the construction phase, compared with the usual private sector and some other public sector project delivery frameworks.

5.19 In the case of the Regent Theatre refurbishment, the project management structure was similar to that which generally operates within the private sector where the Board of the client organisation receives reports directly from the project manager. In some other public sector areas canvassed, the agency or branch of the client agency with specialist knowledge similar to that of the Office of Major Projects, plays a significant role as facilitator in the period prior to the execution of contracts. However, once contracts are in place its role is reduced and is substantially limited to acting as a representative on the Project Control Group unless it is awarded the tender by the client to act as the project manager. Its ongoing role within the Group has a clear focus on risk management.

5.20 Comparison of the Office of Major Projects' structure, during the construction phase, with the alternative structure in place within the private sector and some other public sector areas is provided in Chart 5B.

**CHART 5B
ALTERNATIVE PROJECT MANAGEMENT STRUCTURES**





5.21 The Office of Major Projects advised that it is not possible to clearly delineate between its role as a facilitator and a project manager. However, some of the tasks currently performed by project directors within the Office have been clearly identified as project management functions in other private and public sector frameworks and are subject to contestability. Some services are also provided by the Office which would normally be outside the scope of project management activities, such as tendering of retail tenancies for the Melbourne Sports and Aquatic Centre and establishing the Melbourne Sports and Aquatic Centre Trust.

5.22 For the Office to seek opportunities to operate in a competitive environment and to more accurately assess the cost-effectiveness of its operations, current practices of the Office in relation to recording management information and limitations within its resource budgeting systems would need to be addressed. In particular, the time spent on different types of functions such as project facilitation, project management and other activities need to be separately identified within the Office's information system.

5.23 Although the Office's hourly charge-out rates were found to be substantially in excess of those of the private sector, the combined project management fees charged to the Melbourne Exhibition Centre and the State Library Redevelopment (Phase 1), including the Office's fees and the fees of private sector project managers, fell within an acceptable range of 1 to 3 per cent of the contract value. The current limitations in management information available within the Office inhibited further analysis of this situation.

5.24 Accountability would also be strengthened if budgets were established and monitored in relation to the time spent by project directors on each project. In addition, the Office's corporate planning process needs to be strengthened through the endorsement of the Office's Corporate Plan by the Secretary of the Department of Infrastructure and a formal process within the Department of reviewing the Office's performance against specific indicators and targets established for each project.

ACCOUNTABILITY FOR PROJECT OUTCOMES

5.25 A formal process of defining and communicating the Government's broad expected outcomes from projects, at the time projects are approved, has not been established within the current project delivery framework. Outcomes are generally only defined in terms of an overall budget and a target completion date. Expectations, such as whether projects are primarily directed at achieving desired socio-economic impacts, job creation targets or cultural benefits, or are expected to achieve a level of investment returns, are not clearly spelt out in measurable terms.

5.26 In July 1993, the Premier recognised in correspondence with the Minister for Major Projects that the Budget and Expenditure Review Committee would need to be informed of each project's objectives, performance criteria, reporting procedures and milestones. The agency responsible for developing that information or reporting to the Committee was not identified and such a process has not been established.



5.27 Similarly, responsibility for measuring achievements against expected outcomes has not been assigned within the framework. For example, there is no requirement for a formal evaluation of time, cost and quality at the end of the construction period or for broader government outcomes to be measured. Such processes are part of a sound accountability framework and can provide useful input to future capital works planning.

5.28 Prior to the March 1996 State election, the Office of Major Projects provided regular reports to the Government which contained certain high level information in relation to individual projects in areas such as expenditure against budget and progress made on the project. Formal reports in relation to the progress of projects have not been provided to the Government by the Office since that time.



Part 6

Project management

OVERVIEW

6.1 The approach of the Office of Major Projects to managing complex projects reflects its experience and competence in this area. The framework established for each of the projects selected for detailed examination, in the form of cost plans, design briefs, contractual documentation and meeting structures, was found to be generally sound.

6.2 However, it was found that the practices adopted by the Office did not always reflect industry best practice. Improved performance and strengthened accountability could result from the adoption of value management engineering, improved community consultation, enhanced project specific manuals, strengthened tendering procedures and formalised agreements with consultants. Clearly documented policies and procedures will also need particular attention by the Office if it is to follow the trend of private sector project managers of seeking quality accreditation.

6.3 During the construction phase, approvals and controls in relation to time and cost were found to be appropriate in most cases with emphasis in the area of cost control primarily on ensuring budgets were not exceeded. In order to provide increased protection to the Government, there is a need for greater monitoring of compliance with established contractual agreements with emphasis on quality assurance requirements and quality outcomes.

INTRODUCTION

6.4 Project management involves the planning, control and co-ordination of a project from inception through to completion. It is aimed at meeting a client's requirements within defined time, cost and quality targets.

6.5 The Government's major civic projects are *one-off* in nature and as such each presents unique circumstances and conditions. Although this requires the adoption of a flexible approach, there are certain basic principles applicable to the management of all construction projects regardless of their size or nature.

6.6 The *Best Practice Project Management Guide* exposure draft released in October 1993 by the former Commonwealth Construction Industry Development Agency, is recognised within the industry and the Victorian public sector as an indicator of best practice. The *Code of Practice for the Building and Construction Industry*, issued by the Minister for Housing in 1994, is also aimed at providing a benchmark for the industry particularly in the areas of tendering, engaging consultants and the administration of contracts. The practices advocated in these documents, coupled with advice provided by a specialist engaged to assist in the audit, were used as a basis of assessing the practices adopted in managing the 4 major civic projects examined.

OVERALL MANAGEMENT STRUCTURE

6.7 A major civic project brings together a project team comprising contractors (such as builders or demolition specialists), consultants (such as architects, quantity surveyors and project managers), the client, a sponsor agency and, in the case of projects managed by the Office of Major Projects, a project director.

6.8 The number of parties involved, coupled with the large financial resources allocated to the projects, makes it important to establish a management structure that provides efficient and effective co-ordination of resources and appropriate allocation of tasks. With this in mind, the development of clear policies, procedure manuals, meeting structures, and reporting and monitoring processes is critical to sound project management. Clear documentation of the decisions made and the processes followed to arrive at decisions is also a key aspect of the accountability framework.

Policies and procedures

General requirements

6.9 Project directors within the Office of Major Projects are required to make many decisions based on judgement and experience and taking into account the specific circumstances of a project. However, there are some areas where the adoption of standard practices can assist in achieving a consistent approach and quality outcomes.

6.10 While documented policies have been developed by the Office of Major Projects in a small number of areas, this aspect would need to be strengthened if the Office was to follow the trend within the private sector of seeking quality accreditation. Suggested areas where policies or procedures need to be considered include the approach to be taken to consultation during the design phase, guidance on the preparation of project specific documentation and requirements in relation to reporting to Project Control Groups.

Project specific documentation

6.11 The development of documentation for each project, in the form of a manual clearly setting out roles, responsibilities and relationships between team members, and identifying procedures to be followed during the construction phase, is an established practice in the private sector and in many public sector agencies engaged in the delivery of capital works projects.

6.12 The manuals developed for the 4 projects selected for detailed examination varied in quality and generally did not meet best practice standards. In particular, key information including project objectives in terms of scope, cost and time, roles of the agencies involved and detailed procedural requirements, were not always included. In some cases there were also delays in finalising the manuals, and regular updates to reflect changed circumstances were not always performed. The Office of Major Projects indicated that it does not consider manuals to be key project documents and a quality review by the Office of the manuals developed by contracted project managers was not evident.

6.13 It is considered that the development of a generic manual could assist contracted project managers in the efficient preparation of comprehensive project specific manuals.

Meeting hierarchies

6.14 In addition to the Project Control Groups referred to in Part 5 of this Report, an underlying hierarchy of meetings had been developed for each project ranging from those on-site attended by various contractors and consultants, to the Construction Control Group attended by the builder, architect, project manager, quantity surveyor, client representative and the Office's project director.

6.15 The meetings provided opportunities for regular communication between project team members, enabled discussion of matters arising during the projects and provided for accountability for action taken to address outstanding matters.

MANAGEMENT OF THE PRE-CONSTRUCTION PHASE

6.16 During the pre-construction phase, the framework for a project is established including a technical and functional brief, and a cost plan. During this phase, contractors and consultants are also selected and contractual agreements signed.

Consultation during the design phase

6.17 It was found that sponsor and client agencies, special interest and end-user groups were extensively consulted during the design phase of each of the selected projects. Information obtained was used in the development of a *technical and functional brief*.

6.18 However, the approach to consultation with disabled groups or residents effected by construction works was found to be inconsistent and in some cases not as well managed. The range of approaches included the following:

- Considerable attention was paid to provision of access and facilities for people with disabilities in the design phase of the Melbourne Sports and Aquatic Centre. However, consultation with affected residents did not take place until after finalisation of the design; and
- Despite consultation with people with disabilities during the design phase of the Melbourne Exhibition Centre, a number of complaints were received after the facility was completed. The matters raised included difficulties in gaining access through the front of the building due to the absence of automatically opening doors and insufficient space within toilet areas to facilitate motorised wheelchair access. Action has now been taken to address these concerns.

6.19 The Office advised that, in terms of disabled access, it aims to deliver facilities to meet Australian Standards, in accordance with the *Minister for Finance Guideline - Building Act 1993 - Standards for Publicly-Owned Buildings*, issued in November 1994. However, the Guideline does not provide for public buildings to specifically address the *Disability Discrimination Act 1992* which identifies subjective concepts not addressed in the Standards, including *unjustifiable hardship* created by a facility and *dignity of access*.

6.20 There is a need for the Government to review the Guideline to ensure it adequately addresses the disability discrimination legislation. The development of standard policies and procedures in relation to consultation with both affected residents and people with disabilities may also assist the Office in ensuring the needs of users are adequately addressed in all cases and any adverse impacts on residents are minimised.

Incorporation of the museum shell

6.21 Design of the Melbourne Exhibition Centre on Southbank was complicated by the need to incorporate the *shell* building of the museum commenced on the site by the previous Government. The Government undertook to use the shell as a front door to the Centre, and as administrative, display and public space.

6.22 As a result of budget restrictions fit-out of levels 4 and 5 of the shell building was deleted from the project when only \$9 million of the additional \$11.8 million funding requested was made available by the Government. The Melbourne Exhibition Centre Trust is currently in the process of fitting-out level 4 as office space. Plans are yet to be finalised for the use of level 5.



Shell of museum previously under construction on the Southbank site.

Cost plans

6.23 For each of the projects examined, detailed cost plans had been developed by a quantity surveyor, and independently reviewed where necessary. These plans formed the bases for cost control with the focus of the Office of Major Projects on delivering the projects within the budget. A similar approach was followed for the Regent Theatre refurbishment where sound cost controls were developed to ensure that there were sufficient funds remaining at all times to enable the refurbishment works to be completed.

6.24 There was less evidence that completion at least cost and optimum value-for-money were prime considerations. For example, value management engineering, a process adopted within both the private and public sectors, was not evident for any of the selected projects. The process focuses on meeting the design brief at least cost while maintaining functionality and involves analysing a proposed facility in terms of whether:

- the proposed design meets the brief;
- consideration has been given to alternative ways of meeting the brief;
- any proposed changes still satisfy the client and will achieve functionality; and
- least-cost alternatives have been considered, taking into account both initial costs and life cycle costs.

6.25 In the case of the Melbourne Exhibition Centre, value management engineering could have assisted in addressing issues associated with budget constraints and tight deadlines established by the Government. Although a preliminary cost plan totalling \$129 million was developed by a quantity surveyor in December 1993, there was considerable effort made as the design was further developed to contain the cost estimates within the approved and publicly announced budget of \$120 million. When it was found that, based on tenders received in June 1994, the budget would be exceeded, items within the proposed scope of works with a value of \$11.8 million were deleted or deferred. Value management engineering could have assisted in determining which items to delete or defer to minimise the resulting reduction in functionality.



Melbourne Exhibition Centre under construction.

Tendering

Office of Major Projects

6.26 Requirements relating to tendering for contractors and the engagement of consultants are outlined in the Government’s *Code of Practice for the Building and Construction Industry*. The Office of Major Projects is required to comply with the provisions of the Code and also *Ministerial Direction Number 1 - Tendering Provisions for Public Construction* issued under the *Project Development and Construction Management Act 1994*.

6.27 The Office’s practices in respect of tendering for contractors were found to be generally satisfactory in that tender evaluations for a sample of contracts were assessed as fair, auditable and transparent. Contractors were also adequately pre-qualified. However, the following aspects of the Office’s practices were not in line with Government requirements for the building and construction industry or were contrary to expert advice in relation to best practice:

- In some instances, the periods allowed for lodging tenders for contracts and expressing interest in consultancies were inadequate. Unless sufficient time is allowed, submissions may contain errors, a premium may be placed on the price submitted or underbids may lead to cost-cutting during a project in order to recoup losses;
- In some cases where a limited number of firms were requested to express interest, the consultants were not pre-qualified other than through their history of engagements with the Office. Pre-qualification, according to *Ministerial Direction Number 1*, should involve an assessment of the financial, technical or professional capacity of the firm;
- In the case of one major contract with a value of \$48 million, individual briefing sessions were held with tenderers prior to the receipt of final tender prices. This situation had the potential for certain tenderers to gain an advantage through the provision by the Office of additional information which was not communicated to other tenderers; and
- In the case of a number of consultancies ranging in value from around \$12 000 to over \$900 000, the need for expediency and tight timeframes were given as reasons for not following the requirement to call publicly for tenders or obtain prices from at least 3 pre-qualified tenderers. *Ministerial Direction Number 1* gives the Office the option to bypass these processes in special circumstances. However, in such cases, there is a risk that value-for-money may not be optimised. Ideally, project delivery timeframes should provide adequate time to enable the normal selection processes to be completed.

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Regent Management Company

6.28 Contracts and consultancies for design and project management for the Regent Theatre refurbishment, with a value of around \$3 million, were not subject to tendering procedures as firms had been engaged by the developer prior to the finalisation of contractual agreements. In the case of the firm engaged by the Regent Management Company as its representative, one of the criteria used to assess submissions, i.e. "*experience working with the developer and builder*" gave the firm an advantage in the selection as it had previously been engaged by the Office of Major Projects to assess the refurbishment proposal. Documentation of the evaluation undertaken to support the selection of the firm from 3 short-listed submissions was also deficient.

6.29 With the aim of ensuring value-for-money, the final contractual agreements set out detailed tendering procedures to be followed for the sub-contracting of refurbishment works. With the exception of some areas of non-compliance, including the failure to use a public tender process, the procedures followed were found to be satisfactory.

Contractual agreements

6.30 In the building and construction industry, various methods of contracting for works are used, including *lump sum* and *design and construct*. Decisions relating to the most appropriate method are dependent on the specific circumstances of each project. Irrespective of the method chosen, formal contractual agreements between the parties involved are necessary to allocate risks, establish the rights and responsibilities of each party and set penalties for non-performance. The results of an examination of a project involving each of these forms of contractual agreements follows.

Design and construct

6.31 In the case of a *design and construct* contract, as used on the Melbourne Exhibition Centre, the builder is responsible for the design, documentation and construction of the project based on a brief provided by the principal. This method enables tendering of works to take place before the design is completed and allows projects to be completed within shorter timeframes than with a lump sum arrangement. There is, however, an increased risk that the principal will lose control over the design and quality. In the case of the Melbourne Exhibition Centre, contractual agreements with the early works contractor and design team were subsequently transferred from the Office to the builder. This further increased the potential for loss of control by the Office over the design and quality outcomes.

6.32 These risks were addressed through the following:

- the advanced state of the design at the time the builder was engaged, in addition to special clauses added to the contract with the builder, enabled the Office to retain input into the design and quality aspects; and
- contractual agreements made provision for the architect and project manager to monitor and report to the Office on quality and design.

Lump sum

6.33 In the case of a *lump sum* contract, as chosen for the State Library Redevelopment, the principal engages consultants to design and document the project prior to calling tenders for the works. The successful builder is engaged to carry out the works for an agreed lump sum. Management of the project within time, cost and quality targets is usually the responsibility of the architect or project manager.

6.34 Advantages of a lump sum contract are that the end product is clearly understood before construction begins, the design is developed independently of the builder, if the scope of works is well defined there is a relatively low risk to the principal and the end cost is relatively certain.

6.35 The lump sum contract for the initial component of Phase 1 of the State Library Redevelopment was found to be adequate, in that it provided clauses necessary to cover eventualities that could be expected to arise during the construction phase.

Superintendent's role

6.36 The role of superintendent in administering the contract involves acting as both the principal's agent and an independent certifier in respect of time, cost and quality. The superintendent is required to act honestly and fairly and has a duty of care to both parties.

6.37 The appointment by the Office of project directors to perform the role of superintendent creates a potential conflict of interest in that they are employed by the principal at the same time as they are required to act independently. In order to reduce the risks of the builder terminating a contract on the grounds that this situation could impact on the independence of the superintendent, consideration should be given to including a provision in the employment contracts of project directors indicating that they are to act independently when performing the role of superintendent. Contracts between the principal and the contractor should also specify that the superintendent is an employee of the principal.

Execution of contract documents

6.38 Contracts with the builders for the Melbourne Exhibition Centre and the State Library Redevelopment projects were executed by the Director of the Office of Major Projects. Although ministerial approval to accept the tenders was given to the Director, there is a need to clarify whether such approval gave the Director sufficient authority to execute contractual documents given that the contract values were well in excess of the delegation in place at the time to engage contractors.

Agreements with consultants

6.39 Examination of agreements with major consultants for the Melbourne Exhibition Centre and State Library Redevelopment projects revealed that:

- in some cases, where formal agreements were limited to letters from consultants, matters such as dispute settlement, intellectual property rights, obligations or responsibilities of the parties were not adequately addressed;



- for some ongoing engagements, agreements had been entered into as far back as 1989 and as such do not meet the current Australian Standards for the engagement of consultants; and
- the engagement agreement for the Melbourne Exhibition Centre architect was not executed until September 1994 although the appointment was announced in August 1993 and design work was undertaken in the ensuing period.

6.40 In order to adequately protect the Government, it is advisable that formal agreements be established for all consultancies prior to the commencement of the engagement. Ideally, agreements should be in the form of the Australian Standard or at least reflect guidelines issued by the Victorian Government Purchasing Board.

MANAGEMENT OF THE CONSTRUCTION PHASE

6.41 Effective management of time, cost and quality is a major focus during the construction phase of a project and can be aided by appropriate monitoring and approval processes.

6.42 Private sector project managers engaged by the Office of Major Projects are located *on-site* and are responsible for monitoring the progress of the project on behalf of the project director, making on-the-spot decisions to enable the builder to proceed with minimum delay and liaising with the quantity surveyor, architect and other project team members, as necessary. In some cases, the project manager also acts under delegation as the superintendent's representative providing assistance to the project director including certification of cost and extension of time claims submitted by the builder. In the case of the State Library Redevelopment, the architect was assigned this role. For the Regent Theatre refurbishment, the Company's representative was responsible for management and monitoring the project on a day-to-day basis.

6.43 Processes for management and monitoring time and cost for the selected projects were found to be satisfactory with the exception of the matters set out in the following paragraphs.

Overall management and monitoring

Non-compliance with contractual agreements

6.44 In some cases, non-compliance by team members with roles and responsibilities specified in contracts and agreements, such as providing reports on quality issues and substantiating that sub-contractors had been paid, were overlooked by the Office.

6.45 While it is recognised that projects need to be managed without constant reference to contracts and agreements, it is important that the actual practices adopted are generally in line with contracts and agreements. A history of overlooking instances of non-compliance could diminish the ability of the Government to successfully defend any damages claim made by a contractor or consultant.

Regent Theatre refurbishment

6.46 The overall management and monitoring of the Regent Theatre refurbishment was made difficult and in some cases compromised by the tardiness of the developer in providing requested information or meeting contractual requirements. Examples included delays in providing monthly reports, a business plan and documentation to substantiate payments by the developer to its contractors, in addition to tardiness in finalising the 1996 Variation Agreement.

6.47 Action taken by the Regent Management Company generally comprised repeated requests for information and expressions of concern regarding delays or non-compliance. On several occasions, a proportion of the funds claimed by the developer were withheld. It was only in relation to the failure of the developer to finalise the Variation Agreement that more decisive action was taken. In this case, a Notice of Termination of the developer's engagement was issued in April 1996, and subsequently withdrawn following the execution of the Agreement by the developer.

6.48 Although some contractual matters remain unresolved, a final progress payment was paid to the developer in October 1996. It was recommended to the Company at the completion of the audit that any amounts still due to the developer be withheld or guarantees maintained until all information required is provided and all outstanding matters are satisfactorily resolved.

Time

6.49 As referred to in Part 7 of this Report, time has been and continues to be an issue for the State Library Redevelopment with significant overruns experienced on all components of the project undertaken to date.

6.50 The process for approval of extension of time claims submitted by the builder were found to be reasonable. However, given the history of delays a more *hands on* role by the Office of Major Projects, focused on eliminating delays, could be of benefit in this case.



North West Courtyard of State Library of Victoria under construction.

Cost

Office of Major Projects

6.51 The Office's processes for approving builders' claims for payment and contract variations for the Melbourne Exhibition Centre and State Library Redevelopment projects were found to be satisfactory. However, the value of variations as a percentage of the original contract sum for the projects, being 9.7 per cent and 32.2 per cent respectively, was found to be outside the reasonable range of between 5 and 7 per cent.

6.52 The Melbourne Exhibition Centre variations arose substantially from changes in scope following the provision of extra funding while for the State Library Redevelopment the nature of the site, the unknown conditions it presented and changes in requirements by the client agency were cited by the Office of Major Projects as significant factors that contributed to the level of variations.

6.53 Stringent control over the number of variations made to the State Library Redevelopment needs to be exercised with a view to ensuring sufficient funds are retained to meet unanticipated essential works.

Regent Theatre

6.54 Contractual agreements between the Regent Management Company and the developer indicated that the project price was to be the lesser of the contract sum and the actual refurbishment costs incurred. The monitoring procedures set in place were sound for ensuring that payments made to the developer were contained within the \$25 million budget and ensuring sufficient funds were available to enable completion of the works. However, it was not possible to fully substantiate that payments to the developer did not exceed actual costs incurred for refurbishment works due to:

- a lack of audit trail to enable verification that the value of work completed was in line with the costs recommended for payment;
- absence of a reconciliation of discrepancies between the total amount paid to the developer, as stated in progressive claims, and the actual payments recorded in the general ledger of the Regent Management Company;
- inadequate certification that contractors engaged by the developer had been paid; and
- failure of the developer to meet contractual requirements to provide costing and tendering details for Fly Tower Extension Works, thus inhibiting monitoring in this area.

6.55 In accordance with contractual agreements, 8 quarterly payments were to be made to the developer during the refurbishment representing interest on the unexpended balance of the \$25 million contributed by the Government and the Melbourne City Council. However, the Regent Management Company made 9 such payments resulting in an overpayment of around \$150 000. The Company advised that if a demand for the return of the amount is not met, it will be deducted from a \$1 million guarantee still in place.



Regent Theatre during refurbishment.

6.56 A major variation to the scope of works occurred on the Regent Theatre refurbishment due to the decision by the developer to extend the fly tower and stage areas of the Theatre to enable large productions to be staged. The works commenced well before final approval was provided by the Company. A further major variation was made in relation to the provision of disabled access from the main Collins Street entrance, as specified in the original scope of works. The Company advised that this change was necessary when it was realised during the refurbishment that very high costs, not allowed for in the budget, would be required for structural modifications to accommodate the required double entry lift. These 2 major variations resulted in additional costs to the Company of \$300 000 in the form of legal, accounting and supervision costs, and \$431 000 resulting from the decision to purchase the adjacent Duty Free Shop to facilitate alternative access for patrons with disabilities.



6.57 A broad comparison of the original scope of works with the actual works delivered, undertaken at the completion of the Regent Theatre refurbishment, showed that the original scope had been exceeded to a value of \$200 000. However, some individual items varied from original estimates. For example, the final value of furniture and fittings installed in the Theatre by the developer was \$5 million compared with a budget of \$6 million. The remaining \$1 million had been used to fund cost overruns on other refurbishment items, which would otherwise have been funded by the developer.

Quality

6.58 The Office of Major Projects advised that quality issues were addressed on-site on an ongoing basis. In the case of the State Library Redevelopment, a Clerk of Works was engaged to assist the architect in the quality assurance role.

6.59 Similarly, the Regent Management Company advised that quality was primarily monitored by monthly inspection of the Regent Theatre by the Company's representative. The risk of poor quality was reduced on this project, to a large extent, due to the high standards required by the developer who was to be the end lessee of the Theatre and was therefore interested in achieving a high quality result.

6.60 Although formal quality assurance processes were established within agreements for each of the selected projects, in many cases arrangements for monitoring compliance with agreed processes were not in place. In particular, it was not evident that:

- The quality assurance program for the Regent Theatre refurbishment set in place by the developer had been formally monitored by the Regent Management Company's representative or that the Company had been advised on whether the program had operated effectively;
- Contractual requirements for project managers on the Melbourne Exhibition Centre and Melbourne Sports and Aquatic Centre projects to undertake periodic audits of the builders' quality assurance systems had been met. Given the risk of loss of control over quality inherent in the chosen contracting method for each of these projects, this was an important task; and
- The architects engaged on the State Library Redevelopment project had complied with a contractual requirement to perform a quality assurance role over the design and report on whether the construction work was meeting the design intent and functionality. However, the project manager had audited the builder's quality assurance program.



Part 7

Project outcomes

OVERVIEW

7.1 The broad outcomes expected by the Government from its major civic projects have not been established in measurable terms. Nevertheless, it is clear that in the case of the completed Melbourne Exhibition Centre and Regent Theatre refurbishment achievements have been considerable. Feedback from exhibition organisers indicates that the Melbourne Exhibition Centre is seen as a facility of international standard and has become a major venue in its first year of operation. After it had been vacant and in disrepair for over 20 years, the Regent Theatre is now operational and refurbished in a way which substantially retains its historic structure.

7.2 The Government and the Melbourne City Council have recognised that they are unlikely to receive any direct financial return from their contribution of over \$25 million to the Regent Theatre's refurbishment. Although the Premier had indicated that the rental of the Theatre by the developer was to be a commercial arrangement, a 1996 variation has resulted in a rental for the first 11 years of a 50 year lease which is only 20 per cent of the 1993 market value. In the absence of a business plan supported by market research, there is some uncertainty regarding the ongoing viability of the Theatre. A hotel development on the City Square site is not yet assured as financing arrangements have not been finalised.

7.3 An assessment of the extent to which time and cost outcomes have been achieved for the 4 projects examined disclosed a range of outcomes. While the Melbourne Exhibition Centre was completed on time within a tight timeframe, delays have become an ongoing feature of the State Library Redevelopment and were present, to a lesser extent, on the Regent Theatre refurbishment. Projections in relation to the Melbourne Sports and Aquatic Centre are that the project will be completed shortly after the target completion date in June 1997.

7.4 Costs directly attributable to the construction phase of each of the projects were found to be generally well controlled with only minimal budget overruns on the completed projects. Additional costs not directly related to construction works have been associated with completing the Melbourne Exhibition Centre and the Regent Theatre refurbishment. In relation to the projects still in progress, indications at this stage are that the Melbourne Sports and Aquatic Centre will be completed within budget. Deficiencies in budgetary control for the State Library Redevelopment raise some uncertainty regarding whether the total approved budget of \$187 million will be sufficient to meet the remaining scope of works.

DEFINING AND ASSESSING EXPECTED OUTCOMES

7.5 As indicated in Part 5 of this Report, a formal process of defining and communicating the broad outcomes expected by the Government for its major civic projects, including expected socio-economic impacts, has not been established. At the time the selected projects were approved, stated expectations were generally limited to an overall budget and a target completion date. Responsibility for measuring achievements against expected outcomes has also not been assigned within the current project delivery framework and there is no requirement for a formal evaluation at the end of the construction period.

7.6 At a lower level, detailed cost plans, technical and functional briefs and programs outlining the projected completion dates for various components of the projects were developed for each project and incorporated into contractual agreements.

7.7 The audit included an assessment of whether the time, cost and quality targets were achieved for the completed Melbourne Exhibition Centre and the Regent Theatre refurbishment. Progress made to date in meeting any stated or implied broader government objectives was also assessed for these projects. Actual time and costs to date compared with targets established for the Melbourne Sports and Aquatic Centre and the State Library Redevelopment (Phase 1) were also assessed.

ACHIEVEMENTS IN RELATION TO TIME

7.8 A Certificate of Practical Completion is generally issued for major construction projects at the time the facility is considered to be fit for its intended purpose. A 12 month period from that date is generally specified in contractual agreements during which issues such as omissions or defects, in comparison with the technical and functional brief, or poor workmanship can be identified and communicated to the contractor for attention. A Final Certificate of Completion is not issued until all defects are satisfactorily resolved.

Melbourne Exhibition Centre

7.9 The Melbourne Exhibition Centre was completed substantially on time within a tight timeframe. The project was initially due for completion in November 1995 and a Certificate of Practical Completion was signed in December 1995 after approval of extension of time claims from the contractor totalling only 16 days. Although problems were experienced in completing some components of the project on time, reorganisation of resourcing by the contractor substantially addressed the problems.

Melbourne Sports and Aquatic Centre

7.10 The Melbourne Sports and Aquatic Centre is due to be completed in early June 1997. Progress reports to mid-January 1997 indicate that the project is substantially on schedule with practical completion likely to be in late June 1997.



Pool area of Melbourne Sports and Aquatic Centre under construction.

Regent Theatre

Certificate of Practical Completion

7.11 Under initial contractual agreements, the Regent Theatre refurbishment was to be completed by the end of February 1996. An extension to 30 April 1996 was subsequently granted by the Regent Management Company on the basis of a claim from the developer and a revised completion date of 31 July 1996 was later defined in a June 1996 Variation Agreement between the Company and the developer. This extension of time substantially resulted from a decision by the developer to undertake Fly Tower Extension Works to enable large productions to be staged at the Theatre. The Company has not approved further extensions of time beyond 31 July 1996.

7.12 A Certificate of Occupancy was issued by the Melbourne City Council in time for the opening of the Theatre in August 1996 and a Certificate of Practical Completion was issued by the Regent Management Company in September 1996.

Duty Free Shop

7.13 In accordance with correspondence between the Regent Management Company and the developer at the time the Certificate of Practical Completion was issued, the Duty Free Shop adjacent to the Theatre was to be refurbished by the developer in time for the opening in October 1996 of a production of *Sunset Boulevard* at the Theatre. The refurbished shop was to enable people with disabilities to gain entry to the Theatre from Collins Street.



7.14 The Melbourne City Council has advised that the Duty Free Shop, which is registered by the Council as a notable building, was demolished by the developer in October 1996 without a planning approval or a building permit and an order relating to the developer's failure to obtain a building permit was subsequently issued by the Council. According to the Council, the developer has agreed to construct a building on the site. In accordance with the *Planning and Environment Act 1987*, the Minister for Planning and Local Government has approved plans for the building on the condition that the facade is to the satisfaction of Heritage Victoria. An expected date for completion of the works is uncertain and, in the interim, arrangements have been made for disabled access through the rear of the Theatre.



Site of the demolished Duty Free Shop.

Liquidated damages

7.15 In accordance with contractual agreements, liquidated damages of \$7 000 per calendar week can be claimed by the Regent Management Company if the Date of Practical Completion is not met. The Company advised that it has made a formal claim for either payment of liquidated damages or justification by the developer for further extensions beyond 31 July 1996. Under the Regent Refurbishment Agreement, \$725 000 plus interest is payable to the developer if the Date of Practical Completion is met. The Company advised that it intends retaining the amount until a satisfactory outcome is achieved in relation to the Duty Free Shop.

State Library Redevelopment (Phase 1)

7.16 Substantial delays have been experienced to date in relation to the entire State Library Redevelopment. For example, Phase 1 of the project is to be undertaken in several stages, the first of which had an actual date of practical completion of 6 October 1995 compared with a target of 29 April 1995. Extensions of time totalling 108 days were approved and costs paid to the contractor in relation to the extensions amounted to \$307 000. To the end of December 1996, there had been further time extensions of over 100 days approved in relation to the subsequent stage.

7.17 The Office of Major Projects indicated that although some delays had been anticipated, they had been more significant than expected. While recognising that forecasts of time requirements have been difficult due to unknown conditions on the site and the age of the building, it is of concern that extensions of time have become an ongoing feature of the project.

7.18 The Library Board of Victoria also expressed concern over the delays and the matter is one of a number of issues to be addressed within a review recently initiated by the Board.

COST OUTCOMES

Melbourne Exhibition Centre

7.19 Design and construction of the Melbourne Exhibition Centre facility were met within the approved budget of \$129 million.

7.20 As disclosed in the *Report of the Auditor-General on the Finance Statement, 1992-93*, around \$43 million had already been incurred in relation to the construction of a museum on the Melbourne Exhibition Centre site prior to a decision by the current Government to construct the new museum at the Carlton Gardens. While \$16 million of this amount represented sunk costs, some costs are attributable to the delivery of the Melbourne Exhibition Centre, including:

- around \$15 million for site amalgamation, involving the purchase of certain property leases and the construction of roads;
- design and construction works which were able to be incorporated into the Centre facilities, estimated by the Office of Major Projects at \$5.5 million; and



- \$4.2 million for the purchase of the adjacent *Tea House* now used by the Melbourne Exhibition Centre Trust for administrative purposes and by other government agencies.

7.21 In April 1994, a further \$10.6 million was approved for acquisition of land additional to the site already set aside for the intended museum and a further \$5.2 million was subsequently sought to provide for fit-out of the Melbourne Exhibition Centre. It had initially been envisaged that the manager of the Centre, to be selected through a tender process, would bear the costs of providing furniture, fit-out and equipment. However, a decision was later made by the Government for the Melbourne Exhibition Centre to be managed by a private company already engaged to manage the Melbourne Convention Centre, until at least December 1997, and that the furniture, fit-out and equipment costs would be met by the Government.

7.22 Taking into account these additional outlays, the total cost to the Government of delivering the Melbourne Exhibition Centre on the Southbank site is estimated at almost \$170 million.



Construction site of the Melbourne Exhibition Centre.

Melbourne Sports and Aquatic Centre

7.23 Expenditure to 31 December 1996 on the Melbourne Sports and Aquatic Centre amounted to \$41 million against a budget of \$65 million. Reports from the quantity surveyor indicate that the anticipated end cost is still within the budget. However, expenditure against the allowance within the budget for contingencies is well ahead of the level projected for this stage of the project. This situation indicates that careful management of the remaining contingency allowance will be necessary for the project to be completed within the budget.

Regent Theatre

7.24 The total cost to the Government and the Melbourne City Council of the refurbishment of the Regent Theatre was contained by the Regent Management Company within the agreed cost plan forming part of the contractual agreements. However, the total cost of the project to the Government and the Council is expected to amount to between \$28 and \$30 million comprising:

- Refurbishment costs of \$24 million;
- Fixed cost allowance of \$825 000 (refer to paragraph 4.28 of this Report);
- Variable project costs amounting to \$2.6 million (refer to paragraph 4.28 of this Report);
- Initial contribution of \$250 000 by the Government and the Melbourne City Council to the Regent Management Company's operating expenses;
- Additional contribution of \$300 000 by the Government and the Melbourne City Council to the Regent Management Company's operating expenses; and
- The costs to the Company of the purchase of the Duty Free Shop from the Melbourne City Council for \$405 000. This purchase was funded through equal contributions from the Government and the Melbourne City Council.

7.25 Other assistance, including the costs of certain initial negotiations, legal and administrative costs and directors' services, have been provided to the Regent Management Company free of charge by the Office of Major Projects and the Melbourne City Council. In the case of the Office of Major Projects, a total cost of around \$1 million relating to legal expenses, directors' fees, consultants' fees and salary costs has been recorded as costs of the Regent Theatre refurbishment.

7.26 Financial contributions to the refurbishment by the developer comprised the funding of cost overruns of \$1 million on the initial refurbishment and the costs of the Fly Tower Extension Works. While evidence of the actual costs of these works has not been provided by the developer, the Regent Management Company has been advised that they are in excess of \$7 million.

State Library Redevelopment (Phase 1)

7.27 Although an overall budget of \$187 million was endorsed by the Government in May 1993 for the entire State Library Redevelopment, funding of only \$79 million has been committed to date comprising \$39 million approved in 1993 for Phase 1 and \$40 million approved in 1996 for Phase 2. The spreadsheet used by the Department of Treasury and Finance to monitor commitments against casino revenue records only the \$79 million commitment rather than the overall budget of \$187 million.



7.28 While the costs for Phase 1, amounting to \$27 million at 31 December 1996, have been contained within the approved funding, it was not possible to ascertain whether the actual works completed were in line with expectations at the time of funding approval due to the following weaknesses in budgetary control:

- The overall budget approved in 1993 was based on a Master Plan and cost plan developed in November 1989. As certain of the works covered in the cost plan had already been completed by the former Government, the budget of \$187 million represented around \$20 million more than the value of works yet to be completed. The Office of Major Projects advised that this has provided a cushion from inflationary impacts;
- The allocation of \$39 million for Phase 1 was not supported at the time of funding approval by a scope of works specifying the actual work to be undertaken within that amount; and
- Although a scope of works was subsequently developed for Phase 1, changes have occurred as a result of deferral of some items to later stages, bringing forward items from previous stages, alterations resulting from the need to adjust for changes in technology and changing client requirements.

7.29 These factors have weakened control over costs and contributed to a risk that as the State Library Redevelopment project moves closer towards completion, the unexpended portion of the original budget of \$187 million may not be sufficient to meet the remaining scope of works defined in the Master Plan. In addition, lack of firm commitment to the total budget of \$187 million increases the risk that, in the future, the project may be curtailed without being completed and the full benefits of the works undertaken to that time may not be realised.

7.30 While a Master Plan update issued in November 1995 by the project's quantity surveyor indicated that the unexpended budget, at that time, was sufficient to meet the remaining scope of works, an update has not been prepared since that time. The Office of Major Projects advised that a submission to the Government has recently been prepared for the purpose of securing funding for the entire project.



Completed North West Courtyard of State Library of Victoria.

QUALITY OF COMPLETED PROJECTS

Melbourne Exhibition Centre

7.31 A Certificate of Practical Completion was issued for the Melbourne Exhibition Centre in December 1995 and the contractor is in the process of addressing a list of defects prepared by the Office of Major Projects. A Final Certificate of Completion, indicating that the Centre conforms with all aspects of the technical and functional brief, is yet to be issued as a number of defects are yet to be rectified. Since its construction, the Centre has won a number of design and engineering awards.

Regent Theatre

7.32 The Regent Theatre has been refurbished in a way which substantially retains its historic structure. Statements from a firm engaged by the Regent Management Company to act as its agent during the refurbishment indicated in October 1996 that the Theatre had been completed *to a high quality and to the required functionality*. A Final Certificate of Completion is yet to be issued as the project is still within the 12 month defects period.

BROADER GOVERNMENT OBJECTIVES

Melbourne Exhibition Centre

Expected project outcomes

7.33 According to a submission to the Government prepared at the time the Melbourne Exhibition Centre Trust was established in June 1994, the Government's objectives for the Melbourne Exhibition Centre are to:

- promote the international competitiveness and strengths of Victorian industry and firms;
- ensure that Melbourne is the nation's leading city for exhibitions and trade shows;
- create and maintain Australia's largest exhibition centre and provide an international standard facility which can attract both important Australian and international exhibitions and trade shows to Melbourne;
- take advantage of the synergy of the new Melbourne Exhibition Centre and the Melbourne Convention Centre; and
- continue the development of the Southbank area of Melbourne by providing an additional focus in the area.

7.34 These objectives were substantially reflected in public statements previously made by the Premier at the time the construction of the Melbourne Exhibition Centre was announced in May 1993.

7.35 A survey of exhibition organisers was commissioned by audit to assess achievements against these objectives and to assess whether the features of the Melbourne Exhibition Centre meet user requirements. Features canvassed were based on those identified by an industry advisory group established to provide input at the design phase of the project (refer to Part 3 of this Report). Such a survey is considered important as the perceptions and experiences of exhibition organisers can have a significant impact on the future use of the facilities. A summary of the survey results follows.

Overall survey results

7.36 The Melbourne Exhibition Centre was seen by exhibition organisers as a facility of international standard with some distinct advantages over similar facilities in Sydney and Brisbane. Quantitative results indicated that 56 per cent of the Centre users felt that its overall performance was equal to international standards, 4 per cent rated it as above international standard, 19 per cent rated it as below international standard and a further 21 per cent did not know. The survey also disclosed that:

- the Centre has become a major venue in its first year of operation, and is regarded as one of the nation's leading exhibition centres;
- the Centre has been successful in attracting some new exhibitions to Melbourne; and
- the Centre generally meets exhibition organisers' requirements regarding suitability of the venue, design, layout, size and location.

7.37 Of the respondents who have used both the Melbourne Exhibition Centre and the Sydney Convention and Exhibition Centre, 44 per cent considered that the Melbourne facility was better for exhibitors in contrast to 11 per cent who felt that the Sydney facility was better.

7.38 Support in general for the Melbourne Exhibition Centre prompted comments such as:

- *"The Centre is a brilliant move for us ... the building is user-friendly, the infrastructure is good. It's a world-class venue; but not quite big enough."*
- *"We've seen improvements in our shows (at the Melbourne Exhibition Centre) in terms of volume and attendees."*

7.39 Respondents indicated great satisfaction with truck access and unloading facilities, flexibility of space, floor layout and capacity, and utility pits. All respondents considered the Melbourne Exhibition Centre to be a considerable improvement over the Royal Exhibition Building. Typical comments from respondents included:

- *"The loading dock is better than any other Australian venue."*
- *"The loading dock is excellent. There's plenty of room for pantecs to come in, manoeuvre and park ... the person who runs the dock is excellent. Good facilities save time for both the exhibitor and display contractor. Truck queuing is far better than at the Royal Exhibition Building or Darling Harbour."*

Areas of dissatisfaction

7.40 While the comments from exhibition organisers were, on balance, positive, as expected with any new facility some initial teething problems were raised. The Melbourne Convention and Exhibition Trust advised that most of these problems have been or are in the process of being addressed. However, some of the matters raised by survey respondents still require further attention and responses indicated that some aspects, such as signage and ceiling suspension facilities, could have been more adequately addressed in the design phase.

Signage

7.41 Areas of dissatisfaction related to both external and internal signage. While the signage at a distance from the Melbourne Exhibition Centre, e.g. on ring roads on the outskirts of Melbourne, was found to be good, problems arose closer to and within the building. Typical comments included:

- *"The signage they put up is wrong and it's being pulled down now. The whole place is being renumbered. All the signage that we've been missing for 8 months is now being addressed."*
- *"There's no signage to direct patrons to the car park."*
- *"We need better internal signage in the concourse area. We need a major reference point at the Clarendon Street entrance."*

Ceiling suspension

7.42 A quarter of respondents who had used the Melbourne Exhibition Centre expressed some dissatisfaction with the ceiling suspension facilities. The height of the exhibition hall, ranging from 11.5 metres up to a maximum of 18 metres between trusses, means that displays can appear diminutive unless overhead signage and displays are included. Although it was identified by the industry advisory group early in the design stage that facilities should be provided to hang banners and signage from the ceiling, this was not incorporated in the design of the Centre. Comments from respondents included:

- *"The advisory group requested suspension points but the architects didn't follow it. Now you need a cherry picker."*
- *"We normally would not have done it (at previous venues) but because of the great height at the Centre - it was too high and bare - we had to do something. The truss system was used and it worked OK except that the rigging cost was expensive because we had to use a specialist."*



Motor Show in progress at the Melbourne Exhibition Centre.

Car parking

7.43 Car parking was also a major cause of complaints with 48 per cent of survey respondents expressing some dissatisfaction. Comments included the following:

- *"At major shows, the carpark fills up by 11.30 a.m. Some will not bother. They'll drive away. They'll remember and not return."*
- *"With our show, which was medium sized, we filled the total existing car park sites within an hour of opening. You need to double the space immediately."*
- *"It's a disgrace that the building was allowed to open with so little car parking. You could have 800 exhibitors in that hall without any problem. Sydney's better than Melbourne; but Sydney's capacity could be improved. Brisbane's OK because it's got the facility of a major car park opposite."*

7.44 A recommendation was made by the industry advisory group at the design stage for provision of 3 500 car parking spaces. A transport study commissioned by the Office of Major Projects during this phase concluded that the planned 1 200 spaces in the basement of the Centre and a further 600 above ground would enable parking needs for single trade weekday shows and major exhibitions to be met. However, for weekend demands and peak trade shows, parking within the casino currently under construction and other parking within 10 minutes walk of the Melbourne Exhibition Centre would need to be used by patrons.

7.45 In the longer-term, the adequacy of the 1 100 basement parking spaces and 1 200 ground level parking spaces eventually provided at the Centre will not be known until parking facilities within the permanent casino are completed. Outcomes will be dependent on the availability of spaces within the casino and the willingness of Melbourne Exhibition Centre patrons to use those facilities.

Eating areas

7.46 Dissatisfaction was also raised in relation to the inadequate amount of space allocated within the Melbourne Exhibition Centre to eating areas. A number of organisers expressed dissatisfaction that they needed to allocate rented exhibition space for this purpose to compensate for the lack of catering space.

Other facilities

7.47 Approximately 80 per cent satisfaction was indicated by respondents for the organiser and hospitality suites provided at the Melbourne Exhibition Centre. Respondents who had used the Centre expressed some degree of dissatisfaction with the small size and number of meeting rooms, the small size of the auditorium and the absence of dedicated facilities for a large banquet.

7.48 Of those respondents who recognised the need for facilities other than those previously mentioned, the 2 main needs identified were a restaurant (15 per cent) and a moving pedestrian path on the concourse (11 per cent).

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Synergy with the Melbourne Convention Centre

7.49 The Melbourne Convention Centre located across the Yarra River from the Melbourne Exhibition Centre has conference facilities for over 4 000 people, banquet facilities for over 2 000 people and a number of theatres which can hold between 500 and 2 500 people. A need for synergy with the Melbourne Convention Centre was recognised at the time the construction of the Melbourne Exhibition Centre was announced. Synergy between such facilities enables integrated exhibitions to be used to fund large conferences.

7.50 The use of facilities within the Melbourne Convention Centre could address some of the Melbourne Exhibition Centre facility weaknesses identified by exhibition organisers in the survey in relation to meeting rooms, the auditorium and banquet facilities. However, the distance between the Melbourne Convention Centre and the Melbourne Exhibition Centre was perceived to be an issue as indicated by the following comments provided by respondents:

- *"The distance between the Melbourne Exhibition Centre and the Melbourne Convention Centre is too far."*
- *"It might as well be 5 kilometres as 500 metres away. There's just not time in the schedule to do it."*
- *"It's a challenge, there's no doubt about that. It's partly perception and partly reality. It's a walk of less than 5 minutes - less than end-to-end of the Sydney Convention and Exhibition Centre or the Melbourne Exhibition Centre. The difference is that you're walking across an open-air bridge."*

7.51 As indicated in Part 4 of this Report, a covered walkway is planned as a means of better integrating the Melbourne Convention Centre and the Melbourne Exhibition Centre. However, the survey indicated that there is a need to address both the actual and perceived problems associated with further integration particularly given that other major exhibition centres tend to house exhibition and convention facilities under the same roof.

Usage

7.52 Of the respondents based in Melbourne, the Melbourne Exhibition Centre was stated as the venue used for almost half (47 per cent) of the exhibitions held between February and October 1996. Twenty-two per cent of all exhibitions organised by both Melbourne-based and interstate respondents in that period were held at the Melbourne Exhibition Centre with 79 per cent likely to return. For Melbourne-based respondents, the main reasons for not using the Centre were that it had insufficient conference facilities, it was not available or it was relatively too large or expensive.

7.53 As a result of alterations to the Royal Exhibition Building, the exhibition area at that venue has been significantly reduced. Consequently, the Melbourne Exhibition Centre is now the only large-scale exhibition venue in Melbourne. This means that for the largest exhibitions there is no choice other than to use the Melbourne Exhibition Centre or to hold the exhibition in another State.

Regent Theatre

Expected project outcomes

7.54 There is no evidence that expected outcomes, i.e. economic, financial or non-financial, were clearly identified or assessed prior to the finalisation of funding arrangements for the Regent Theatre refurbishment. However, letters from the Premier to the developer in January and April 1993 suggested that:

- the refurbished Theatre was to be managed under a commercial rental arrangement with the Theatre manager bearing all risks associated with its success or failure; and
- it was the Government's desire to achieve a single integrated project, comprising both the Regent Theatre refurbishment and a suitable redevelopment on the adjacent City Square site, in a reasonable timeframe.

7.55 In seeking expressions of interest in early 1992 for the development of the Regent Theatre and City Square site, the Melbourne City Council's stated objectives were to:

- provide a mixture of uses in the precinct which appeal to a broad cross-section of the community;
- generate frequent public activity within the precinct which was to be integrated with and strengthen the prominence of the nearby Swanston Street Walk as a public space;
- retain as much of the historic structure of the Regent Theatre as is practicable;
- obtain a reasonable financial return to the City of Melbourne from any redevelopment; and
- ensure timely resolution of the future of the precinct.

7.56 The Theatre is now operational after a period of more than 20 years during which it was vacant and in disrepair and anecdotal evidence indicates that the refurbishment of the Theatre has significantly increased activity in the surrounding areas. Other comments in relation to the extent to which objectives have been achieved follow.

Rental income

7.57 Under April 1994 contractual agreements between the developer and the Regent Management Company, the refurbished Regent Theatre has been leased to the developer for 50 years at an annual rental of \$250 000, indexed to CPI, and subject to rent reviews in year 11 and thereafter at 5 yearly intervals. The period of the lease can be reduced to 10 years if the developer does not fulfil its commitments in relation to a development on the City Square. The agreed rental was below 1993 valuations obtained at the time from the Valuer-General and an independent valuer who indicated that the market value was \$390 000 and \$375 000, respectively. The Valuer-General advised that a discount to \$250 000 a year was acceptable in the "*particular circumstances*". The Duty Free Shop adjacent to the Theatre has been leased to the developer free of charge in return for its refurbishment.



7.58 Under a Variation Agreement subsequently negotiated between the developer and the Regent Management Company, the annual rental has been reduced to \$70 000 a year for a period expected to be 11 years. This rental is less than 20 per cent of the 1993 market value.

Financial returns

7.59 The Government and the Melbourne City Council have recognised that they will not receive a direct financial return from the Regent Theatre. They have both advised that it was never their intention for the project to be approached as a commercial investment. This is in line with the views of a consultant, engaged by the Office of Major Projects who reported in March 1993 that the project would generate an internal rate of return of between 2 and 3 per cent and on that basis no prudent developer or investor would fund the project. It was recognised by the Government at the time the project was approved that the return on the funds invested would be less than 1 per cent.

7.60 Nevertheless, a review by the Office of Local Government, prior to the approval of the project under section 193 of the *Local Government Act* 1993, indicated that the Council expected to be better off financially providing it was not required to make any further contributions to the project. It was envisaged that rather than incurring ongoing maintenance costs on the Theatre which was not generating rate revenue at the time, the completed project, together with a development on the City Square site, would generate rates of \$150 000 a year.

7.61 As indicated in Part 6 of this Report, further contributions from the Council of over \$350 000 have been required to meet operating costs of the Regent Management Company and the purchase of the Duty Free Shop. The Council advised that rate income has not increased to date as rates effective from the commencement of the lease of the Theatre have not yet been levied on the developer and under contractual agreements, the developer is entitled to a 95 per cent rate concession for 3 years in relation to the City Square site.

7.62 The potential financial returns to the developer and its ability to meet rental payments are unknown due to the absence of a business plan for the Theatre and a lack of knowledge of the developer's financial arrangements with its shareholders and with the firm responsible under a sub-lease agreement for the management of the Theatre.

7.63 Irrespective of the returns received by the developer over the 50 year lease period, there is no provision within contractual agreements for a proportion of revenue or profits to be paid to the Regent Management Company or its shareholders, i.e. the Government and the Melbourne City Council. An initial clause in draft contracts providing for the Company to receive 6 per cent of all revenue over \$6 million was removed from the final contractual agreements. In addition, a requirement in the initial agreements for the developer to provide a \$1 million guarantee to meet any shortfall in rental payments was eliminated as a result of the Variation Agreement subsequently negotiated by the Company.

Viability of the Theatre

7.64 Although it was initially proposed that the refurbished Theatre would be used for small productions and movies, its functionality was changed as a result of a decision by the developer in September 1995 to undertake Fly Tower Extension Works which now enable large productions to be staged. In return for funding these works, the developer negotiated with the Regent Management Company for reduced rental and other benefits with a net present value of \$2.5 million.

7.65 The Company advised that the decision to agree to these provisions was made on the basis that without the Fly Tower Extension Works the Theatre had a limited capacity to attract drawcard performances with long runs. This was assessed as severely affecting the ability of the lessee to profitably operate the venue. The Company advised that the Theatre is now a far cry from the operating capability and market position it would have represented if the initial plans agreed by the Government and the Melbourne City Council had been implemented. A report commissioned by the Company in January 1995 raised certain concerns regarding the Theatre's viability. However, the report identified the need to undertake a market research study to assist in positioning the Regent Theatre and developing a business plan for its operations. Such a study was not prepared to support the decision to change the Theatre's functionality.



Completed Fly Tower Extension Works rising above the Regent Theatre.



7.66 The sub-lessor of the Theatre has now successfully negotiated for *Sunset Boulevard* to be staged at the Theatre. However, the Theatre's ongoing use and the ability of the developer to meet financial commitments in the future will be dependent on market conditions and the ability of the manager to successfully market the Theatre, both of which are untested at present.

Development on the City Square

7.67 As the Regent Theatre refurbishment and the development of the City Square site were seen by the Government and the Melbourne City Council as one integrated project, April 1994 contractual agreements with the developer include the following provisions:

- The developer agreed to construct a hotel and podium on the eastern side of the City Square site by April 1998;
- The developer agreed to pay the Council \$1.5 million towards the cost of redesigning and redeveloping the western side of the City Square retained by the Council;
- The developer agreed to undertake *interim works* to a value of not less than \$1 million on the site if a podium or hotel did not commence by January 1995. The works were to be aimed at converting the site into an open space for public use and for pedestrian access to the Regent Theatre. On completion of the works, the developer was to lease the site to the Council for use as part of the City Square until commencement of the construction of the podium or the hotel;
- If the developer commences the construction of the podium or hotel within 9 years of the agreements, the Council has agreed not to use or develop the remainder of the City Square for any purpose, other than as the City Square of Melbourne, for 50 years; and
- The Melbourne City Council can buy back the site if the hotel or podium development does not commence by April 1998.

7.68 The Council advised in February 1997 that funding for the hotel on the City Square had not yet been finalised and as a result, the final outcome of this major component of the agreements was still in some doubt.

7.69 The developer has paid the Council \$1.5 million towards the redevelopment of the area of the City Square retained by the Council. A formal extension of time to October 1996 was granted by the Council in relation to works on the area of the City Square site purchased by the developer, due to:

- the need for the developer to have access to the City Square area in order to complete the Regent Theatre refurbishment;
- indications that the hotel construction on the site was to commence in the near future; and
- plans by the Council to construct a car park under the surface of the entire City Square.

7.70 Although a further extension has not been formally granted, the Council advised that negotiations are at an advanced stage in relation to facilitating the construction of the car park and the hotel at the same time.

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Ongoing viability of the Regent Management Company

7.71 The Regent Management Company is the owner of the Regent Theatre including the Fly Tower Extension Works financed by the developer. However, rather than these Works increasing the Company's earning capacity they have significantly reduced its rental income as a result of the Variation Agreement.

7.72 The ongoing financial viability of the Company under current arrangements and its ability to meet cash flow requirements is in some doubt given that its only sources of funds are \$70 000 a year from rental payments in addition to interest on any excess funds in the Company's operating account which had a balance of \$170 000 at 31 October 1996. In comparison, expenses in 1995-96 totalled \$180 000. While the Company's expenses are not expected to continue at this level now that the refurbishment has been completed, significant legal fees could be incurred in the event that any difficulties arise with the current lease agreement or there is a need to re-negotiate the lease. Under a Shareholders' Agreement, the Melbourne City Council and the Government will be required to meet any future financial needs of the Company.

7.73 In accounting terms, the Company will be in a position of recording operating losses in future years once the costs of the Regent Theatre refurbishment, which have to date been capitalised in the Company's accounts, are progressively depreciated.