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Auditor General

Victoria

REPORT ON
PUBLIC SECTOR AGENCIES

Results of special reviews

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AUDITOR GENERAL
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The Hon. Judy Maddigan MP
Speaker
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Melbourne

I am pleased to forward this report to you for presentation to each House of Parliament, pursuant to section 16 of the *Audit Act 1994.*

This report sets out the results of a number of special reviews undertaken up to the date of preparation of the report.

Yours faithfully

JW CAMERON
Auditor-General
12 May 2004

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Foreword

We have 2 main aims in reporting the results of our work to parliament and to Victoria's public sector agencies. The first is to provide independent assessments and assurance about the financial and resource management processes and practices of agencies. The second is to identify needed improvements in the performance and accountability of agencies, so that action can be taken to address these matters.

One of the main ways we achieve these aims is through our reports to parliament on the results of special reviews of selected activities in public sector agencies.

This report contains the results of 12 special reviews. They cover a diverse range of subjects, from the management of major infrastructure projects to internal financial reporting practices in local councils.

The reviews identify the need for improvements in most of the areas examined, and provide recommendations to strengthen the practices and performance of agencies.

While our findings and recommendations are directed toward the specific agencies examined, I trust they will also provide useful insights and lessons to be learned for other agencies with similar activities.

JW CAMERON
Auditor-General

12 May 2004

1. Executive summary

1.1 Introduction

This report sets out the results of 12 special reviews, examining:

- how well public sector agencies have managed major projects that develop the state's infrastructure and operational capability
- the quality of internal financial reporting by local councils
- how well one public sector agency managed its investment in a new innovative venture
- whether parks charges levied on taxpayers were collected and spent in accordance with legislative requirements.

The topics reported come to attention out of the financial statement audit of public sector agencies, from issues drawn to our attention by members of parliament or the public, or from issues which our own intelligence suggests the need for examination.

The major conclusions and recommendations drawn from these reviews are reported below.

1.2 Conclusions and recommendations of special reviews

1.2.1 Was progress satisfactory on the Austin Health Redevelopment and Mercy Hospital for Women Relocation Project?

With an estimated cost of $376.3 million, this is the largest public hospital redevelopment ever undertaken by the state.

The project is progressing well as a result of sound governance arrangements and risk management practices.

There have been construction delays (mainly due to bad weather) throughout 2003. However, the managing contractor has indicated that these delays would not affect the December 2004 completion date for the construction phase of the 2 hospitals.

A risk exists for a potential funding shortfall of $13 million, against the approved project budget, for the refurbishment of existing facilities.

An additional $21.4 million, not included in the construction contract or project scope, is estimated to be required for deferred refurbishment works for ambulatory care, clinical support services and clinical facilities. These works will be managed under a separate contract arrangement, subject to the approval of future funding.

Recommendation

1. **That Austin Health and the Mercy Hospital develop a model to allocate the costs of common facilities so that the total operating costs of each hospital are accurate for health funding purposes.**

1.2.2 Was the Airport Transit Link Project well managed and were its objectives achieved?

The Airport Transit Link Project sought to improve access and travel times between Melbourne's (Tullamarine) airport and the central business district.

The Department of Infrastructure adequately planned and managed the project, and project objectives have been largely achieved. However, a number of remaining issues, including the reservation of land along the Albion East corridor for a future rail link, need to be carefully managed so that the potential costs to the state are minimised and project benefits are fully realised.

Sound project governance and reporting arrangements have enabled the government to adequately monitor and make decisions about the project. On this basis, the government's decision not to proceed with a rail link to the airport was well founded.

While the government's objectives for the project have been largely achieved by the enhanced bus service, its expectation that peak travel times between the airport and the city will be consistently around 20 minutes or less has not been met.

Given the importance placed by the government on reducing bus trip times, we expected that the amended contract with the service operator would specify target trip times. It did not. The department needs to continue monitoring trip times to inform government decisions about the need for, and timing of, any future airport transport link, and about the need for further traffic management and road works to reduce bus travel times.

While the state is entitled to a share of operator revenues from the enhanced bus service, these revenues have not been maximised due to delays in commissioning certain capital and traffic management works by the state. In addition, the decision by the operator not to pursue its option to provide an extended service through a "city circle" route is likely to reduce the potential revenues of the service and the state's income from the revenue sharing arrangements.

Should a rail link to the airport be pursued at some time in the future, a $13 million component of the project budget allocated for acquiring land and compensating owners along the Albion East corridor will almost certainly prove to be too low. This is because the valuation advice supporting this allocation was given in September 2000, and property values have since risen considerably.

Recommendations

That the Department of Infrastructure:

2. **negotiate with the Skybus operator to include in the service contract a target maximum travel time for the service**
3. **seek to resolve the issues which have led to the Skybus operator not pursuing the city circle route option**
4. **ensure that tenderers for the bus service in 2007 commit to investigating the feasibility of a city circle route, if the 2001 business case assessment that such a route would increase patronage is shown to be still valid**
5. **ensure that the chartered accountant currently employed by the operator for the purpose of certifying revenue sharing calculations for the enhanced bus service is sufficiently independent from the operator**
6. **ensure more timely reporting and payment of the state's share of revenue from the service.**

1.2.3 How well did the Department of Infrastructure plan and manage the restoration of country passenger rail services?

The government's commitment to restore passenger rail services to 4 regional areas (Ararat, Bairnsdale, Mildura and South Gippsland) has not yet been achieved.

At the time of our audit, works had progressed on 2 of these lines (Ararat, Bairnsdale). In late April 2004, the Minister for Transport announced the Bairnsdale line would re-open on 2 May 2004.

The commencement of these services was 9 months behind the targeted date. The final cost to complete the works is expected to exceed the revised capital budget ($25.9 million) by 26 per cent and total $32.7 million. The government is yet to announce a course of action on the other 2 lines (Mildura, South Gippsland).

The Department of Infrastructure did not adequately plan for and manage the project. More could have been done to test the reliability of initial cost estimates provided by one of the private sector operators and specialists, and to address the risks to scheduled project delivery known to exist at the start of the project. These weaknesses contributed to the project going over budget and over time. The department has since introduced rigorous guidelines and review processes aimed at improving its planning and management of major projects.

Recommendations

That the Department of Infrastructure:

7. **regularly review the adequacy of its project planning and development guidelines, processes and documentation to ensure that these are contributing to effective project development practices**
8. **regularly review the adequacy of its project management guidelines, processes and documentation to ensure that these are contributing to effective project management practices**
9. **review its management of contractual arrangements with private sector operators on major infrastructure projects to achieve project objectives and reduce the likelihood of future projects going over budget and time.**

1.2.4 Was progress on the Australian Synchrotron Project satisfactory?

The state has committed $157.2 million for the synchrotron project, which will fund the construction of the synchrotron building and the core facility. To date, the project has been well managed by a professional and skilled team and is running to plan, and on time. No cost over-runs have occurred.

The project was based on a comprehensive and thought-through business case supported by expert advice and information.

An adequate project governance structure is currently in place. However, the operational governance structure of the synchrotron, including all key funding stakeholders, will need to be established before construction is completed. Synchrotron users are expected to be key stakeholders due to their involvement in the development of the project and because they will share in the capital and operating costs.

The key financial risks have been adequately managed to date. It is too early to determine whether there will be a funding shortfall for the costs of either the construction of beamlines or the operation of the synchrotron facility, which are to be met by users. There is the risk that the state may be required to meet any funding shortfall. However, the project team's plans to raise funds to meet both costs are adequate. The team has identified possible funding partners and secured commitments from some of them.

Recommendation

10. **That the development of the operational governance structure for the synchrotron should consider the rights and obligations of future stakeholders (i.e. funding partners other than the state) to ensure the effective management of the facility.**

1.2.5 Was the Police Station Capital Works Program effectively managed?

Victoria Police's "Police Station Capital Works Program" aims to build, replace or upgrade 135 police stations over 6 years (1999-2000 to 2006-07) for an estimated budget of $279 million.

The program has been generally well planned and managed. Work was on time, on budget and contributed to a range of government policy objectives. Program management arrangements were adequate, and program reports were detailed and regularly available. However, the budgets used in some reports were inadequate for monitoring project progress accurately.

The transfer by Victoria Police of budgets between projects was ad hoc, not planned and not formally communicated to the Department of Treasury and Finance. Victoria Police needed to advise that department of budget reallocations to assist in its oversight of the capital works program.

Recommendation

11. **That Victoria Police evaluate the Police Station Capital Works Program, as soon as possible, to determine whether program objectives are being achieved.**

1.2.6 How well has the Prison Bed Expansion Program been managed?

The Department of Justice's Prison Bed Expansion Program was established in 2000-01 to provide the prison system with extra capacity to ensure the "humane containment" of Victoria's growing number of prisoners.

While there have been issues with the Department of Justice's management of 2 earlier prison bed expansion projects, the department took appropriate action in late 2002 to strengthen its management of infrastructure projects.

At March 2004, an additional 495 temporary and permanent prison beds had been completed within a budget of $60 million.

The department will not achieve its target of 1 073 permanent beds by June 2005, but compensated for this by the introduction of temporary beds into the prison system in response to demand pressures and overcrowding in police cells. The removal from prisons of around 630 temporary bunk beds will be delayed until the permanent infrastructure is complete.

Timelines for the completion of the new remand centre were extended and continuing sound management is required by the department to ensure that it is completed on time. The development of community transition units is around 3 years behind schedule. More pro-active management by the department in identifying sites for the units may have reduced the delays.

The department did not fully comply with government procurement policies. However, the department has since improved its quality assurance and management systems to assist the delivery of its infrastructure projects.

1.2.7 Was the Mobile Data Network Project well managed to date?

The Mobile Data Network Project is one of several major information technology projects under the Statewide Integrated Public Safety Communications Strategy.

The network will provide work dispatch and other information from the Victoria Police, VicRoads and Sheriff's Office databases to members of Victoria Police and the Metropolitan Ambulance Service, while in their vehicles. The network will also allow for the tracking of the vehicles.

The project to establish the network has been complex and challenging, and the proposed network will be unique. The Department of Justice expects that the network will result in operational efficiencies, improvements to staff safety, additional fine revenue, cost savings and productivity gains for Victoria Police and the Metropolitan Ambulance Service.

The project's governance and project management, and user involvement, have been satisfactory, given the complexity of the project. In particular, project governance was strengthened through the operation of a steering committee comprising senior representatives of key stakeholders.

However, the 1998 business case upon which funding was approved for the project was not based on a good enough understanding of available mobile data services and their costs. Subsequent major revisions in project scope and estimated costs show that subsequent business cases were also deficient.

We acknowledge that the small number of suppliers of such networks, and the small number of equivalent networks in operation, made the preparation of accurate business cases (particularly cost estimates) difficult.

The department negotiated with a single tenderer for a significantly changed project scope over a 2-year period. It did so believing that the second bidder would not have complied with the tender selection criteria if given the opportunity to revise its bid on the basis of the changed project scope. As a result of the decision to deal with a single tenderer over a prolonged period, the preferred bidder received additional opportunities to significantly revise their proposal. This is contrary to good practice, and inconsistent with the Victorian government policy on tendering, and it may have been more appropriate to have called for new tenders.

Further, the protracted negotiation period also made it more difficult for the department to establish that it would receive value-for-money and that the network would be reliable and the technology would also be the most up-to-date in the market.

Looking forward, the project faces several risks, and these must be carefully managed by the department's Bureau of Emergency Services Telecommunications and by client agencies. Two of these risks are that agencies' change management strategies, and the performance management regimes, will not be effective. All affected agencies have already started to manage these risks.

Recommendations

12. **That key assumptions in business cases for future major information technology projects be independently checked to ensure that they are reasonable.**
13. **Where significant and wide-ranging changes to project scope, costs and benefits occur after public tender, that new tenders should be called.**
14. **That an internal auditor (or other similarly independent but suitably skilled expert) be engaged to audit the project's progress over its life. Its reports should provide independent assurance about the soundness of the project's management and implementation.**
15. **That the bureau follow good practice on probity in tendering by not engaging in protracted contract negotiations with a single proponent based on a significantly changed project scope.**

1.2.8 Was the redevelopment of the National Gallery of Victoria satisfactorily completed?

The National Gallery redevelopment modified and expanded facilities at the National Gallery of Victoria's St Kilda Road site.

The redevelopment project was completed in May 2003, at a cost of $164 million, some $28 million over the initial estimate. This increase was mainly due to changes to the project scope and was largely funded by the trustees of the NGV and private benefactors.

Since the redeveloped facilities opened, 2 large glass panels shattered. The trustees of the National Gallery have taken action to minimise the safety risk if similar events happened again.

1.2.9 Did the Melbourne Market Authority adequately manage its investment in Fresh Chain Ltd?

Between 1998 and 2004, the Melbourne Market Authority (MMA) invested $14.36 million in the development of an internet-based trading system. The system was not successfully implemented and the investment was written-off.

The MMA board substantially met the essential attributes for the successful development of a business case. However, it failed to adequately revise and reassess the business case to take account of changing requirements.

The MMA board did not ensure that governance arrangements within Fresh Chain, and between it and Fresh Chain, were adequate.

The MMA board did not adequately manage and monitor its investment in Fresh Chain.

Recommendations

16. **That parent bodies, when establishing a company or other agency to undertake a particular activity, ensure an appropriate level of control and involvement. This would normally include:**
    - **appointing to the board individuals with the range of interests, skills and experience relevant to the operations of the entity**
    - **approving the appointments to the board and to subcommittees and ensuring subcommittees operate appropriately**
    - **establishing detailed financial and operation protocols that incorporate reporting requirements.**
17. **That the MMA, should it fund the operations of another entity, have a detailed budget approved by its board; and that all expenditures over and above those budgeted be approved item-by-item in advance by the board.**
18. **That the MMA, if acting as the parent of another agency, ensure that all financial transactions are conducted in accordance with government requirements. This may include a subsidiary certifying compliance with these requirements.**
19. **That the MMA, as part of any agreement to fund a major project, require written and detailed reports about the status of any proposed capital raising, expenditure, contracts, systems and potential investors.**

1.2.10 Were parks charges properly raised and spent?

The *Water Industry Act 1994* sets out how the parks charge, which is levied on all commercial and residential properties in the Melbourne and metropolitan areas, must be raised and spent. About $80 million is collected each year from this charge.

The parks charge for 2002-03 was examined. The moneys levied, collected and paid into the Parks and Reserve Trust Account (established to record the receipt and disbursement of the charge) were in line with the requirements of the Act. The parks charges were spent as required by the Act.

However, the Department of Sustainability and Environment does not report specifically or regularly to parliament about the trust account's operation, and transparency and public accountability about the administration of the parks charge is, therefore, limited.

Recommendations

20. **That the Department of Sustainability and Environment:**
    - **establish appropriate funding and service agreements, covering at least the purpose of the funding, expected outcomes and reporting requirements, with all funded agencies**
    - **monitor the performance of funded agencies against the agreements.**
21. **That the department's annual reports include summary information on the activities of the Trust Account.**

1.2.11 Was the consolidation of city accommodation for departments well managed?

In late 2001, the state sought to lease 100 000 m^2 of 'A' class office accommodation in the city of Melbourne, to consolidate and upgrade some currently dispersed departmental office accommodation. Following a tender process, in October 2002 the government took a 10-year lease of part of the 50 Lonsdale Street development, and a 15-year lease of part of the Southern Cross development in Exhibition Street.

The business case for the public sector accommodation consolidation was comprehensive and adequately outlined the leasing options.

The tender process followed government procurement, accommodation and construction guidelines. All tenders were evaluated against established and consistent criteria, and evaluations were well documented.

The Department of Treasury and Finance was taking appropriate steps to manage the transitional risks associated with the new lease accommodation arrangements.

1.2.12 How useful are local councils' internal financial reports?

The internal financial reports produced by local councils examined as part of this audit were considered adequate for meeting the basic financial responsibilities of managers and councillors. However, they did not adequately provide information to enable recipients to meet their full range of financial responsibilities.

Internal financial reports of most of the councils examined did not provide information about whether council resources were being managed efficiently and effectively, whether financial exposures were being minimised, or whether services were being provided at an appropriate cost and quality.

Almost all councils examined did not integrate financial and non-financial (operational) data in any useful way in either operational reports or internal financial reports. As a result, the explanation of variances from approved budgets provided little real insight into the effect of these variances on the operations and performance of councils.

The internal reporting processes and financial information systems in most councils were not designed to efficiently link financial and operational information and, as a result, did not support the strategic management of the organisation.

In many instances the way that financial information was presented inhibited the readers of the reports from gaining a clear understanding of their meaning.

Recommendations

22. **That councils which currently produce internal financial reports on a partial accrual basis move to reporting on a full accrual basis as soon as is practicable, and no later than the end of the next financial year.**
23. **That councils review their financial management capabilities, identify shortcomings and develop and implement fully-funded plans to address them.**
24. **That all councils review the format and layout of their internal financial reports, in conjunction with the individual users of the reports.**

2. Special reviews

2.1 Was progress satisfactory on the Austin Health Redevelopment and Mercy Hospital for Women Relocation (AR/M) Project?

2.1.1 Audit conclusions

The project involves the redevelopment of the Austin Hospital and the relocation of the Mercy Hospital for Women to an adjoining site in Heidelberg. This is the largest public hospital redevelopment ever undertaken by the state.

The project is progressing well as a result of sound governance arrangements and risk management practices.

There have been construction delays (mainly due to bad weather) throughout 2003. However, the managing contractor has indicated that these delays would not affect the December 2004 completion date for the construction phase of the 2 hospitals.

The approved cost of the construction contract is $376.3 million. A risk exists for the potential funding shortfall of $13 million for the refurbishment of existing facilities.

An additional $21.4 million, not included in the construction contract or project scope, is estimated to be required for deferred refurbishment works for ambulatory care, clinical support services and clinical facilities. These works will be managed under a separate contract arrangement, subject to the approval of future funding.

RESPONSE provided by Secretary, Department of Human Services

Agreed.

The Project Council has reviewed the options for addressing the costs of refurbishing existing facilities that are within the agreed scope of the project and is confident that the $13 million can be met from within the approved budget (refer fourth paragraph of audit conclusions).

The proposed deferred refurbishment works are outside the agreed scope of the AR/M Project and should not be treated differently from any other future capital proposal. Note that the $21.4 million was the estimated cost at November 2001 (refer last paragraph of audit conclusions).

RESPONSE provided by Chief Executive Officer, Austin Health

Agreed.

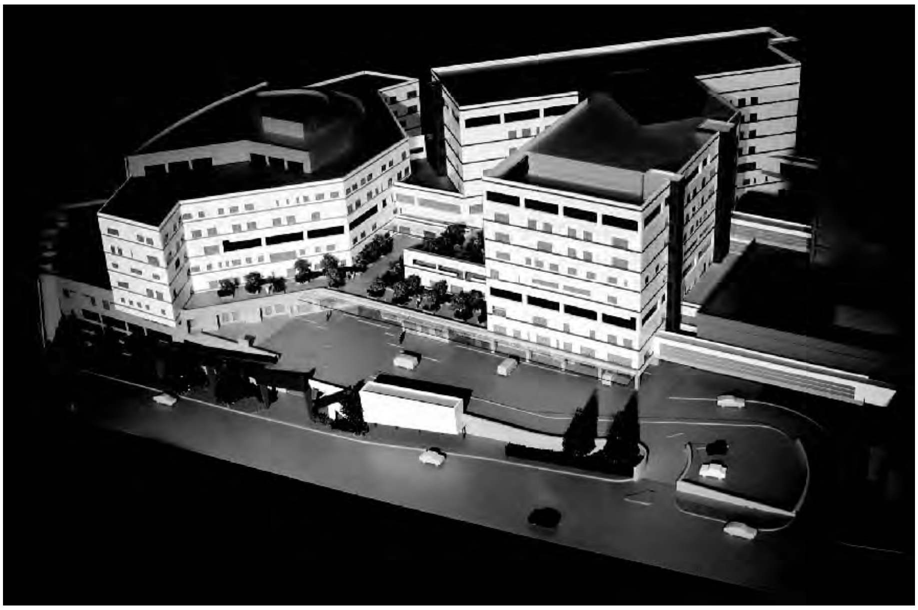
2.1.2 About the project

This project is to design, construct and commission facilities for the redevelopment of the Austin Hospital at Heidelberg and the relocation of the Mercy Hospital for Women from East Melbourne to Heidelberg. The project includes an underground car park, a new clinical services block and refurbishment of the existing Austin Hospital buildings. It will provide over 500 beds, a new emergency department, intensive care and critical care units, operating theatres, delivery rooms and neonatal intensive care unit cots. The hospitals are due to be commissioned in May (Mercy) and June (Austin) 2005.

Major Projects Victoria (MPV) is managing the construction and commissioning of the project.

Figure 2.1A shows the architect's model for the redeveloped site.

FIGURE 2.1A: ARCHITECT'S MODEL FOR COMPLETED NEW PUBLIC HOSPITALS



"Victoria's largest public hospital development – two hospitals, one site".
(Photo courtesy of Major Projects Victoria.)

Last year, we reported[1] on the project's governance structure, business case and contract specifications, and found no significant issues. This review follows on from our earlier report and looks at the management of the construction and pre-commissioning stages of the project.

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[1] *Report on Public Sector Agencies' Results of Special Reviews*, February 2003, pages 89 to 110.

RESPONSE provided by Chief Executive Officer, Mercy Hospital for Women

It is likely that the commissioning date for the Mercy Hospital will be April, not May 2005.

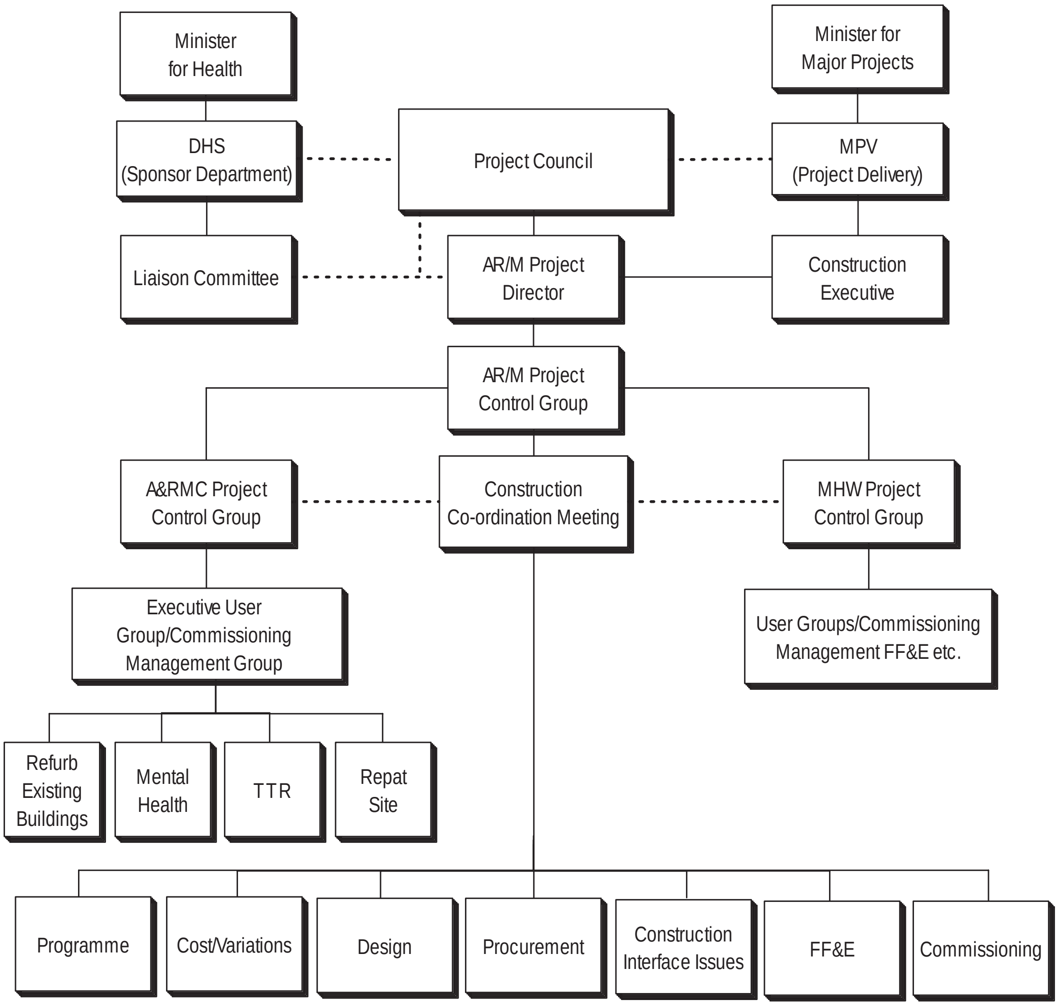
Major Projects Victoria is managing the facility commissioning, not the operational commissioning.

2.1.3 Was there a robust governance structure?

The governance arrangements were revised in mid-2002 after a decision to transfer responsibility for delivery of the project from the Department of Human Services to Major Projects Victoria

The current arrangements (refer Figure 2.1B) indicate a clear separation of duties of the sponsoring department (Department of Human Services), the project director (MPV) and the end-users (Austin Health and the Mercy Hospital for Women).

FIGURE 2.1B: CURRENT GOVERNANCE ARRANGEMENTS



Source: AR/M Project Co-ordination Manual, November 2002.

The roles of the key project management groupings are as follows:

- Project Council – responsible for monitoring and review of progress, expenditure and management of the project, and approving scope and budget changes
- Liaison Committee – a forum to discuss and resolve policy issues, and review project management and budget performance relating to project construction, commissioning and implementation, and ensure that any concerns raised by the Department of Human Services, Austin Health or Mercy Hospital for Women are conveyed to the Project Council
- Project Control Group – overall responsibility for the delivery of the project within the timeliness and budget agreed by government
- (Hospital) Project Control Groups (Austin Health and Mercy Hospital for Women) – to receive significant input from user groups and are responsible for the design and functionality of the project within the parameters set by the Project Control Group.

The AR/M Project Control Group is chaired by the project director (Major Projects Victoria) and comprises representatives from the Department of Human Services, Austin Health, Mercy Hospital for Women and project consultants.

In assessing whether there was a robust governance structure, we examined if:

- roles and responsibilities were clearly allocated
- lines of accountability were clear
- decision-making was timely
- there was regular monitoring and reporting to a project steering committee and to other key stakeholders.

The project team adopted and complied with comprehensive project management policies and procedures during the construction phase. Key stakeholders are based close to the Heidelberg site and have access to virtual project office software. This helped the team respond quickly to any concerns raised by stakeholders.

All major project decisions were taken after adequate consultation.

Austin Health, Mercy Hospital for Women, the managing contractor and the project consultant prepare detailed reports that are summarised into a monthly project summary report. This goes to the Project Council, Liaison Committee, the AR/M Project Control Group and the Austin/Mercy Project Control Groups. The financial and other information in the summary reports is based on project records, and was accurate for the reports examined by audit.

Information from the monthly project summary report is also entered onto the Department of Infrastructure's web-based project reporting system. Reports are prepared for the Minister for Infrastructure, the Secretary to the Department of Infrastructure and the Executive Director of Major Projects Victoria. The system also allows information about multiple projects to be aggregated into one report to government.

News of project progress is conveyed to the community through the project brochure, quarterly newsletters, website announcements, media events, consultations and site visits.

In March 2003, the Victorian Government introduced the *Gateway Review Process* for major construction and systems development projects. This process involves the conduct of independent, structured and high-level reviews of medium and high-risk projects, at critical stages of a project. The *Gateway Review Process* has 6 "gates": strategic assessment, business case, procurement strategy, tender decision, readiness for service and benefits' evaluation.

Major Projects Victoria have advised that a Gateway review team will review the AR/M project in the September 2004 quarter, to see how close it is to best practice for Gate 5: Readiness for service. The review will examine the current potential for final success, the adequacy of management of the current (completion of construction) phase, the continued validity of the business case, the status of risk management actions and the project's readiness for commissioning in the first half of 2005.

Conclusion

The project's governance structure is robust as evidenced by clear allocation of roles and responsibilities, timely decision-making, regular monitoring and reporting to key stakeholders.

RESPONSE provided by Secretary, Department of Human Services

Agreed.

2.1.4 Was the project on time?

The 2 hospitals are due to be commissioned in mid-2005. Figure 2.1C shows the progress of construction at the Heidelberg site. The underground car park and hospital towers are completed, and the external façade for the hospitals is being put in place.

FIGURE 2.1C: CONSTRUCTION PROGRESS

Source: AR/M project image library.

The contract requires the Austin Hospital to be fully-functional during construction and refurbishment, and the redevelopment must be managed so as to not disrupt hospital services.

In assessing whether the project is on time, we examined if performance to date, and the schedule for the remaining construction works, were in line with the planned project milestones.

Figure 2.1D shows the scheduled start and finish dates for the main works.

FIGURE 2.1D: MAIN WORKS PROJECT MILESTONES

Work	Start	Finish
Underground car park	March 2002	October 2003
Mercy Hospital (a)	April 2003	November 2004
Austin Hospital (b)	March 2003	December 2004
Refurbishment of existing facilities	November 2004	January 2006

(a) Mercy Hospital to be commissioned in May 2005.

(b) Austin Hospital to be commissioned in June 2005.

Source: September 2002 master program, AR/M Project Team, Major Projects Victoria.

In October 2003, the car park was partly commissioned, a year ahead of schedule. Building and construction workers are using it, to ease parking congestion in the nearby area. The workers are paying a nominal daily fee (which is being given to charitable projects) to use the car park.

The managing contractor lost significant construction time throughout 2003, due to bad weather, poor performance by some key suppliers and problems with management process. This set back progress on the site significantly, and resulted in the managing contractor devoting more resources to the site and rescheduling works to bring the project back on time. The additional resources and rescheduling will not result in an additional cost to the state.

Conclusion

Although there have been setbacks in construction, the managing contractor has advised that completion of the project will remain on schedule.

> ***RESPONSE provided by Secretary, Department of Human Services***
>
> *Agreed.*

2.1.5 Was the project on budget?

The July 2000 master plan initially estimated the total project cost at $310 million. This was $190 million for the Austin Hospital, $65 million for the Mercy Hospital, $25 million for the underground car park and $30 million for consolidating and upgrading teaching, training and research facilities.

At the final design stage in March 2002, the total project cost was estimated to be $376.3 million. This amount was agreed to by the government, and was included in the contract and has not changed. The main reason for the increase was that market building costs had risen substantially above the long-term average, exceeding the industry allowance for cost escalation used in earlier forecasting.

Major Projects Victoria advised that it is too early to provide a definitive break-up of the actual total project cost of $376.3 million. While the costs of the car park ($25 million) and the teaching, training and research facilities ($30 million) will remain the same as initially assessed, the final break down of construction costs for each of the 2 new hospitals will be confirmed only at their practical completion.

The Department of Human Services will fund $353.4 million of the total project cost. Other sources will raise $22.9 million, as follows:

- $6.6 million from Mercy Hospital for Women
- $15 million from universities and the private sector for a half share in the teaching, training and research facilities
- $1.3 million funding by Austin Health for cafeteria and retail shops.

We examined whether project costs were in line with the approved budget.

Total costs of $154.9 million incurred to 31 March 2004 were within budget.

There have been only minor changes to the project scope, which resulted in approved increases amounting to $2.1 million. These are more than offset by cost savings of $4.1 million through better-than-expected prices from trade suppliers and subcontractors.

The final cost of the car park was in line with the budgeted $25 million. After a cost-benefit analysis, the government decided not to lease or sell the car park to the private sector and instead Austin Health would retain and operate the car park. We were advised that the Treasury Corporation of Victoria (TCV) is providing a loan to Austin Health to allow the hospital to privately fund the construction cost of the car park. The TCV loan will be repaid from future revenue generated by the car park.

The total project cost of $376.3 million includes an amount of $51.2 million (13.6 per cent of total project cost) for the refurbishment of existing hospital facilities; furniture, fixtures and fittings; and plant and infrastructure. Because the extent of necessary fire protection, removal of hazardous materials and interconnected services work was not yet known, and the refurbishment of existing facilities was not yet fully scheduled, there was a financial risk that the allowance in the total project cost was underestimated in relation to the refurbishment works.

In September 2003, Major Projects Victoria reported the results of its review of the costing for the refurbishment of existing facilities to the Project Council. The report found a potential shortfall of $13 million.

An additional $21.4 million is the estimated cost for ambulatory care and clinical support services, site consolidation and improvements to clinical facilities. These works were not included in the construction contract or project scope and will be managed under a separate contract arrangement, subject to approval of future funding.

Austin Health and the Mercy Hospital for Women will share some facilities and services (such as the kitchen and library) but procedures for allocating the costs of these shared facilities and services were not yet determined.

In February 2001, the Department of Human Services estimated that Austin Health would save about $9.6 million a year, and the Mercy Hospital $1 million a year, by amalgamating and rationalising building, engineering and other services. The business case provides for a review of operating costs by the Department of Human Services, Austin Health and the Mercy Hospital for Women 12 months after the new hospitals are commissioned. Operating costs before and after the commissioning will be compared, using service delivery indicators such as recurrent maintenance costs, recurrent savings, performance against models of care, outcome of service quality audits and levels of patronage (for the Mercy Hospital).

Conclusion

To date, the costs of constructing the underground car park and the 2 hospitals are in line with budget. The approved cost of the construction contract is $376.3 million and has a potential shortfall of $13 million for the refurbishment of existing facilities.

Deferred refurbishment works for ambulatory care, clinical support services and clinical facilities (which were not included in the construction contract and project scope) are estimated to cost an additional $21.4 million.

The extent of savings in operating costs will not be confirmed until after the review at the end of the first full year of operations.

Recommendation

1. **That Austin Health and the Mercy Hospital develop a model to allocate the costs of common facilities so that the total operating costs of each hospital are accurate for health funding purposes.**

RESPONSE provided by Secretary, Department of Human Services

Agreed. DHS will facilitate the development of this cost allocation model.

Also refer to comments provided under "audit conclusions" in relation to project costs.

RESPONSE provided by Chief Executive Officer, Mercy Hospital for Women

Mercy has rolled-up the expected cost savings in an up-front contribution to the project.

2.1.6 Were risks adequately managed?

In assessing whether risks are being adequately managed, we examined if:

- all costs and benefits of design, construction, commissioning and future operations were realistically estimated and regularly reviewed
- financial commitments, contingencies and exposures were minimised, provided for and monitored by the state
- adequate measures were in place to manage, mitigate and monitor all risks, including financial risks.

A risk consultant developed a project risk map/matrix and management plan to mitigate identified risks. These risks related to design, unknowns, cost capping, existing infrastructure, changes in clinical practice, planning, communication, industrial relations and procurement were identified. All risks were assessed as moderate, except for cost capping which was a high risk (scope changes might be required if construction costs were higher than expected, and this might impact upon future provision of services by the hospitals).

The status of identified risks, and the project team's responses, are reported on monthly to the Project Council. The main risks at present are a possible delay in completing the project (timing), a shortfall in provisional sum allowances (cost) and a reduction in scope of refurbishment and other works (scope).

The cost and scope risks arise from the shortfall of $13 million between the revised estimate of costs for the refurbishment of existing facilities and the allowance made for these costs in the contract. The project team is looking closely at strategies to bridge the shortfall.

The total project cost includes a contingency of $22 million (5.8 per cent of total project cost). This acknowledges that many project components are yet to be specified, including those to do with the refurbishment of existing facilities. The contingency sum can be used for subcontracting arrangements, industrial relations matters and weather delays, scope changes by Austin Health and the Mercy Hospital for Women, and for adjustments to initial contract allowances. To date, $1.5 million of the contingency has been spent.

Conclusion

The project has a documented risk management plan and all identified risks are appropriately monitored and actively managed.

The most important financial risk now is the potential budget shortfall in the refurbishment for existing facilities.

RESPONSE provided by Secretary, Department of Human Services

Agreed. Also refer to comments provided under "audit conclusions" in relation to project costs.

RESPONSE provided by Chief Executive Officer, Mercy Hospital for Women

Agreed. It should be noted that the refurbishment works are an Austin Health activity. It is, therefore, an Austin Health risk.

2.2 Was the Airport Transit Link Project well managed and were its objectives achieved?

2.2.1 Audit conclusion

The Department of Infrastructure adequately planned and managed the Airport Transit Link Project, and project objectives have been largely achieved. However, a number of remaining issues, including the reservation of land along the Albion East corridor for a future rail link, need to be carefully managed so that the potential costs to the state are minimised and project benefits are fully realised.

Sound project governance and reporting arrangements have enabled the government to adequately monitor and make decisions about the project.

The business case contained adequate information and analysis to support government decision-making about the project. It included everything we expected to find in a good business case. On this basis, the government's decision not to proceed with a rail link to the airport was well founded.

While the government's objectives for the project have been largely achieved by the enhanced bus service, its expectation that peak travel times between the airport and the city will be consistently around 20 minutes or less has not been met.

Given the importance placed by the government on reducing bus trip times, we expected that the amended contract with the service operator would specify target trip times. It did not. The Department of Infrastructure needs to continue monitoring trip times to inform government decisions about the need for, and timing of, any future airport transport link, and about the need for further traffic management and road works to reduce bus travel times.

While the state is entitled to a share of operator revenues from the enhanced bus service, these revenues have not been maximised due to delays in commissioning certain capital and traffic management works by the state. In addition, the decision by the operator not to pursue its option to provide an extended service through a "city circle" route with installation of a new bus stop(s) at the eastern end of Collins Street, is likely to reduce the potential revenues of the service and the state's income from the revenue sharing arrangements.

The state needs to ensure effective ongoing monitoring of the revenue sharing arrangements to ensure its full entitlements are received.

While the project was completed below budget and mostly on time, the project budget of $20 million assumed that construction of a rail link was a predominant option for delivery of the project objectives. The costs of a rail link would have been much higher than the costs of enhancing the bus service.

Should a rail link to the airport be pursued at some time in the future, a $13 million component of the project budget allocated for acquiring land and compensating owners along the Albion East corridor will almost certainly prove to be too low. This is because the valuation advice supporting this allocation was given in September 2000, and property values have since risen considerably. The department advised that it will seek updated valuation advice on a "property by property" basis when required to respond to compensation claims. However, it will not seek updated advice on the likely costs of acquiring land along the whole Albion East corridor until required for the government to make a decision on whether to proceed with the construction of a rail link.

RESPONSE provided by Secretary, Department of Infrastructure

The department accepts the report's conclusions and recommendations, however, the following points should be noted:

- *The delays in commissioning works mentioned in the report were due to necessary vigorous testing by VicRoads to ensure that the on-road traffic signal priority was robust and effective. Road safety issues took priority over bus operational matters.*
- *The focus of the project was on the freeway bus lane and traffic signal works at 2 intersections. A target delivery date of December 2002 was set and the freeway work was completed in early February 2003. Delays were caused by negotiations with Essendon Airport Corporation over clearances to public lighting poles that were required to be relocated before roadworks could commence, and consequent extension of the roadworks contract into the Christmas/New Year holiday period.*
- *The city intersection work could not commence at the same time as the freeway works as the Sky Bus route in the CBD was not finalised between the Department of Infrastructure, the Sky Bus operator and the Melbourne City Council until October/November 2002. Following that agreement, work at 7 intersections was completed in April 2003.*

2.2.2 Background

The Melbourne (Tullamarine) Airport was opened in July 1970, and is a major passenger and freight gateway into Australia. The number of people travelling to or from the airport each year is currently estimated at 27 million and this is projected to increase to around 37 million by 2009. The airport is located approximately 22 kilometres north-west of the city centre.

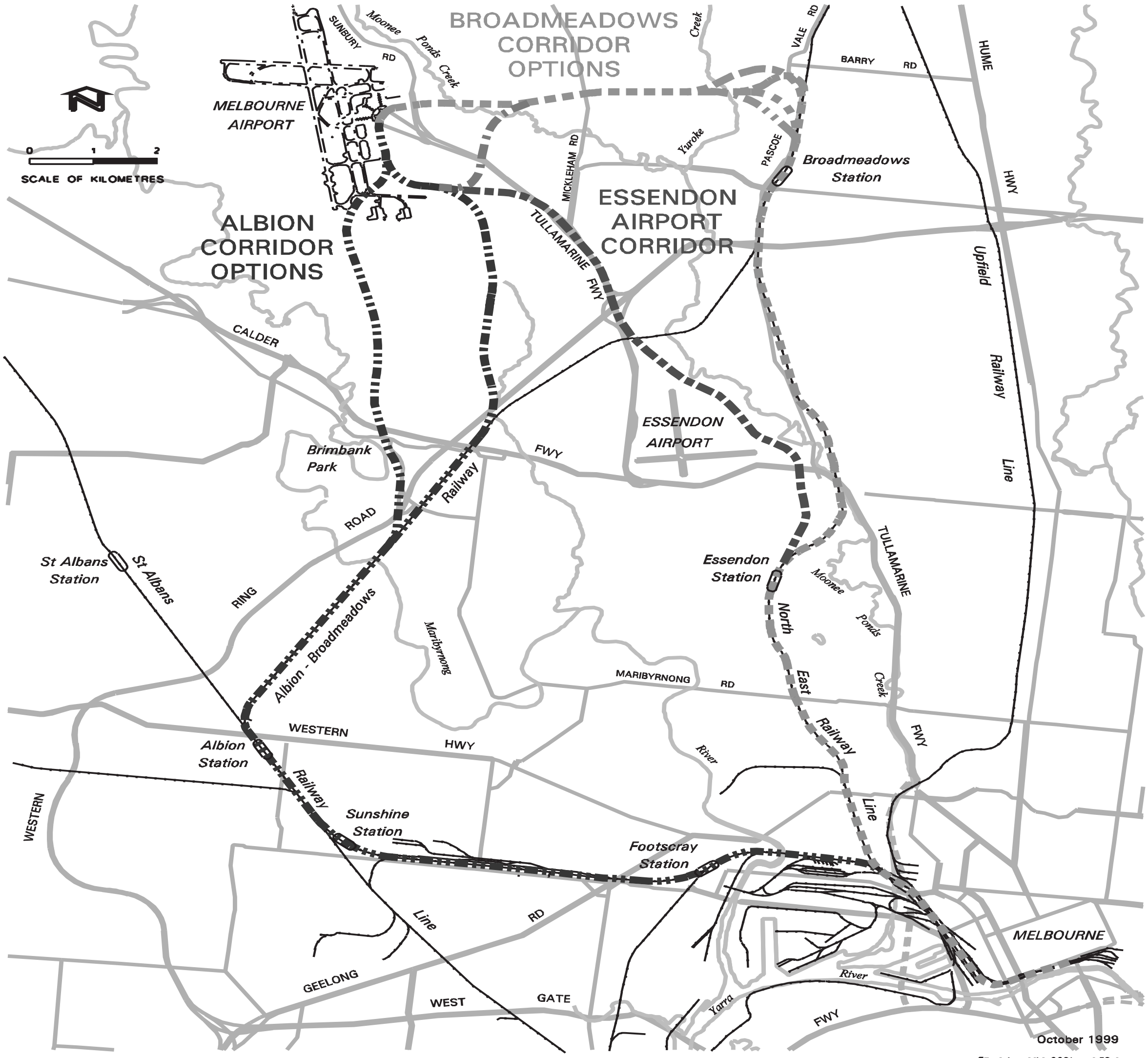
Prior to 1997, preliminary investigations for an airport rail link were carried out by a number of organisations, including the Public Transport Corporation and VicRoads. In mid-1997, the (then) government also decided to investigate a possible rail link between Melbourne's central business district and Melbourne (Tullamarine) Airport. These investigations were carried out by the Department of Infrastructure (DoI) in 1998.

Three rail route options were considered, namely the Broadmeadows, Essendon and Albion corridors. In a November 1998 report by DoI on the "Melbourne Airport Rail Link", the department concluded that the Broadmeadows corridor was preferred.

In May 1999, the government asked an independent planning panel to further assess the options. In August 1999, the panel recommended that further investigative work be carried out on the Broadmeadows route and 2 Albion route options.

Figure 2.2A shows the Broadmeadows, Essendon and Albion rail route options considered for the project.

FIGURE 2.2A: MAP OF RAIL ROUTE OPTIONS



The current government, in a 1999 pre-election commitment, supported a rapid transit link between the airport and the city, and indicated that it would seek a partnership with the private sector to construct and operate the link.

On being elected in October 1999, the government included this commitment in their *Linking Victoria* initiative, which was launched in February 2000. This initiative was a blueprint for an investment of over $1.5 billion in transport infrastructure across Victoria.

In February 2000, the Minister for Planning directed that further investigative work be undertaken on the route options for the link. Consequently, DoI initiated investigations and commenced a public exhibition process involving all stakeholders.

In May 2001, a new Planning and Advisory Panel commenced hearings to consider submissions on the planning scheme amendments required to secure a corridor for an airport rail link. In October 2001, the panel recommended that the Albion East corridor be reserved for a possible future rail link.

In January 2002, the government decided not to proceed with the construction of a rail link from the city to the airport. It did so because a patronage study had indicated that such a rail link would not be commercially viable for at least 10 years, and would be likely to cost the government between $350 million and $450 million in subsidies over that time. It also announced that an upgraded bus service was being examined and that land was to be reserved to allow for the future construction of a rail link along the Albion East corridor.

In June 2002, the government announced an agreement with BTI Pty Ltd, the operator of the existing Skybus service between the city and the airport, for an enhanced bus service. The estimated cost of implementing the enhanced service was $10 million over a 5 year period with the government contributing $3 million of this amount for initial road and traffic management works.

Figure 2.2B outlines the key project events since October 1999.

FIGURE 2.2B: SUMMARY OF KEY AIRPORT TRANSIT LINK PROJECT EVENTS

Date	Event
October 1999	New government elected with a commitment to build a rapid transit link between Melbourne Airport and the city.
May 2000	A public consultation program was announced to help select a suitable route for a rapid transit link. The program focused on the Broadmeadows and Albion rail corridor options and followed a recommendation by the independent panel appointed in 1999 that more investigative work be done on these 2 corridors. The 2000-01 State Budget provided for a $20 million government contribution to a partnership with the private sector for the Airport Transit Link Project.
November 2000	The public consultation program was extended to address community feedback.
April 2001	A second Independent Planning and Advisory Panel was appointed to consider submissions and make recommendations to the government about required planning scheme amendments.
May 2001	The panel began public hearings to consider submissions on the government's proposal to construct and operate a rail service to the airport using either the Broadmeadows or Albion corridor. Consultants were retained to conduct a financial assessment of likely patronage levels on the proposed link.
November 2001	The government accepted the panel's recommendation to abandon the Broadmeadows corridor option and to further investigate the Albion corridor. The Department of Infrastructure provided the government with the business case prepared on the rapid transit link.
January 2002	The government announced its decision not to proceed with the construction of the rail link because it would not be commercially viable for at least 10 years, and would need between $350 million and $450 million in government subsidies in that time. The government also announced that it would reserve the Albion East corridor to allow for a rail link to be built in future; and that it was examining an upgraded bus service.
June 2002	The government announced an agreement with Skybus to enhance existing bus services to the airport, with the new arrangement to be fully operational by the end of 2002.
2002-03	The government’s Budget Papers for 2002-03 confirm: • that a rail link between the city and Melbourne airport would not be commercially viable for at least 10 years • the government’s decision to reserve land along the Albion East Corridor for a possible future rail link • an allocation of $3 million to enhance bus ways between the city and Melbourne Airport.

2.2.3 Were project governance arrangements adequate?

In assessing whether project governance arrangements were adequate, we examined if they:

- clearly defined the project need, priority and objectives
- clearly assigned project management and reporting responsibilities
- included a governance and reporting framework that ensured the Department of Infrastructure and government could monitor and make informed decisions about the project
- defined the project scope, budget and timelines
- included plans to identify, analyse, monitor and minimise or eliminate risks

- allowed for regular monitoring of performance against performance measures and milestones, and had processes to address deficiencies
- included a stakeholder communications plan.

In September 2000, DoI and the Department of Treasury and Finance established a Rail Projects Group within DoI to oversee the planning and delivery of a number of major rail projects under the *Linking Victoria* program. The Rail Projects Group then established a project team to manage the Melbourne Airport Transit Link Project.

In November 2000, the government endorsed the project's objectives, which were:

- transport services – an airport transit link that is competitive with road transport in terms of pricing, journey time, service quality and convenience
- value-for-money – to minimise the longer-term cost to taxpayers associated with the operation, capital works and maintenance of an airport transit link, within a *Partnership Victoria* framework
- risk transfer – to transfer risk to the private sector where it represents value-for-money
- public amenity – to ensure community concerns, environmental issues and other social issues are addressed in a transparent and accountable manner.

The Rail Projects Group reported to the government's Rail Projects Committee on projects for which it was responsible. That committee comprised the Premier, Treasurer and Minister for Transport (who chaired the committee). The committee, in turn, reported to the full Cabinet.

The group also reported to senior DoI officers. It further liaised and consulted with:

- a steering committee comprising the secretaries of the Department of Infrastructure and Department Treasury and Finance, a representative from the Department of Premier and Cabinet, other senior departmental officers and an independent member to provide commercial advice
- the government's Economic Review Committee.

The 2000-01 State Budget included a $20 million allocation for the Airport Transit Link Project over 3 years. At that time, the government stated that it wanted work on the project to be well underway by early 2003. The first project phase was to develop a business case to assess the various options for transit links between the city and the airport. The government instructed that the business case take account of stakeholder views.

The business case was presented to the government in November 2001. It analysed in detail the risks related to the various transit link options, and risk treatment and allocation strategies.

In May 2000, the government announced a public consultation program for the project. In April 2001, as part of this program, the Planning Panel and Advisory Committee was appointed to review the environmental and community impacts of a rail link through either the Broadmeadows or Albion corridors.

The committee reported to the Minister for Planning in October 2001. It had held public hearings for 8 weeks, and received about 3 000 submissions. In November 2001, the government accepted the committee's recommendation to abandon the Broadmeadows corridor option and further investigate the Albion route.

Since 2001, responsibility for managing various aspects of the project has been allocated to relevant groups within DOI, including the Infrastructure Projects division for overall project management and the Public Transport Directorate for management of the revised contract for the provision of enhanced bus services. In addition, VicRoads was assigned primary responsibility for completing the traffic management measures and road works required for the enhanced bus service.

Conclusion

Governance arrangements for the Airport Transit Link Project were adequate. The reporting arrangements for the project were also adequate. The governance and reporting arrangements enabled the DoI and the government to adequately monitor and make informed decisions about the project.

2.2.4 Was the business case adequate?

In assessing whether the business case was adequate, we examined whether sufficient information had been gathered and analysed by experienced and qualified people to produce a business case that included:

- project objectives
- analysis of the need for, and demand for, the link
- options to achieve the project objectives
- analysis of the estimated capital and operating costs for the various options
- consideration of economic, social and environmental costs and benefits
- a list of project stakeholders, their interests in the project and how they would be affected by it
- a list of potential risks and mitigation strategies
- a preferred or best value option.

In May 2001, the Rail Projects Committee asked for the estimated cost of the airport transit link. In June 2001, the Rail Projects Group provided preliminary estimates of capital costs (including rolling stock) for the 3 options shown in Figure 2.2C.

FIGURE 2.2C: PRELIMINARY CAPITAL COST ESTIMATES, JUNE 2001 ($M)

	Rail link on Broadmeadows route (b)	Rail Link on Albion route (c)	Enhanced bus service (d)
Estimated net present value of capital costs, including rolling stock (a)	385	525	30

(a) Discounted at a pre-tax rate of 6 per cent. Capital cost estimates include a contingency of 15 per cent.

(b) Assumes 3 grade separations and no tunnel at Broadmeadows Park.

(c) Assumes one grade separation at Anderson Road.

(d) Assumes limited roadworks on the Tullamarine Freeway and includes the costs of new state-of-the-art buses.

Source: Department of Infrastructure.

The Rail Projects Group then commissioned a study of the potential patronage of various transport options. It also examined the economic feasibility of an airport transit link. In November 2001, the group presented the results of this analysis, and of the patronage study, to the Rail Projects Committee in the form of a business case.

The business case included the approved project objectives, the potential modes of transit (including options such as heavy rail, monorail, and an enhanced bus service), estimated patronage, estimated capital costs, possible business and operational risks, detailed financial and commercial analysis and discussion of matters of public interest.

The business case assessed the potential modes of transit against the following criteria:

- availability of corridor – an available corridor between the airport and the central business district was essential
- travel time – to compete with taxis and private cars (and therefore draw enough patrons), travel time should be no more than about 20 minutes
- environmental impact – the project's environmental impact should be modest and there should be minimum impact on the environment during construction and operations
- service quality – services should be at no more than 15 minutes apart between 7 am and 7 pm. The service should be reliable, and a quality experience
- accessibility – the transit link should integrate conveniently with the existing transport network
- project cost – the project should provide value-for-money
- time frame for delivery – the project should be delivered in time for the Commonwealth Games in 2006.

The business case concluded that an enhanced bus service, and a heavy rail service, best met the criteria. The other transit mode options were rejected because of high capital costs and environmental issues.

The business case analysed the 2 options in depth, and looked at estimated patronage, estimated capital costs and the net present value of capital and operating cash flows over 10 and 30-year periods. It included a cost-benefit analysis and options for services to be provided by the private sector.

Based on the analysis in the business case, the Rail Projects Group recommended that the enhanced bus option to Spring Street in the central business district was the best value-for-money. Compared with the rail option, the capital costs were minimal and ongoing operating and rolling stock costs were low. In addition, the recommended enhanced bus service option was expected to deliver a significant increase in public transport patronage by 2008-09 because it involved an extension of the service from Spencer Street, which is where the bus service in place at that time terminated, to Spring Street at the eastern end of the city. This proposed service extension was later referred to as the city circle route.

Figure 2.2D shows that the bus options were assessed as having the lowest capital costs, returning a positive net present value and were expected to increase public transport patronage, although not by as much as the rail options in the case of a bus service terminating at Spencer Street Station.

FIGURE 2.2D: NET PRESENT VALUE AND PROJECTED PATRONAGE INCREASES BY OPTION

Mode	Corridor	Terminus	Capital cost NPV (a) ($m)	NPV 10 years (b) ($m)	NPV 30 years (c) ($m)	Incremental public transport patronage 2008-09 (‘000)
Rail	Albion East	City Loop	(347)	(357)	(227)	800
Rail	Albion West	City Loop	(380)	(396)	(268)	800
Rail	Albion East	Spencer St Station	(343)	(378)	(307)	450
Rail	Albion West	Spencer St Station	(376)	(417)	(346)	450
Bus	Tullamarine	Spencer St Station	(8)	45	153	245
Bus	Tullamarine	Spring St	(10)	84	235	651
Bus/rail Hybrid	Tullamarine/ Albion East	Spring St/ City Loop	(258)	N/A	(38)	651

(a) Includes rolling stock.

(b) Represents capital and operating cash flows, adjusted for risk, to 30 June 2013. Bus operational for 10 years; rail operational for 7 years.

(c) Represents capital and operating cash flows, adjusted for risk, to 30 June 2033 for bus and 30 June 2036 for rail. Rail commences operations 3 years after bus.

Source: Department of Infrastructure.

The business case included appendices to further explain the results of analyses and the basis for the main assumptions and conclusions.

The existing operator of the Skybus service that covers the same route, advised the Rail Projects Group that an upgraded bus service would need improvements at the airport terminals, traffic management improvements and stops within the central business district. The capital cost of enhancing the bus service (not including rolling stock which was to be financed by the operator) was estimated at between $2.8 million and $3 million, depending on where the service terminated.

In November 2001, the Rail Projects Group recommended to the Rail Projects Committee that the enhanced bus option be chosen, and that the Albion East rail corridor be reserved for a future heavy rail link at an estimated cost of $10 million. The recommendation that the Albion East corridor be reserved was based on advice from the Planning Panel and Advisory Committee which had been appointed in May 2001 to examine the rail route options. The group also recommended that the enhanced bus option and reservation of the Albion East corridor both be funded from the $20 million budget allocation for the airport transit link under the *Linking Victoria* strategy.

The basis for the recommendation was that the business case showed that the enhanced bus option would be the best value-for-money to the state. It would increase public transport patronage between the city and the airport for the relatively small capital cost to government of about $3 million.

In November 2001, the Rail Projects Committee:

- noted (but did not approve) the recommendations on rail route options for the Melbourne Airport transit link
- endorsed the reservation of the Albion East corridor for a possible future heavy rail link to the airport
- asked the Minister for Transport and the Treasurer to develop a communications strategy for the project
- asked the Minister for Transport and the Treasurer to bring a submission to government early in 2002 setting out the implementation options and a communications strategy.

In January 2002, the Minister for Transport announced that the patronage study showed a rail link to Melbourne airport would not be commercially viable for at least 10 years, and that the government had decided to reserve land for a rail link through the Albion corridor, but would not build the rail link at present. The minister also stated that the government would continue to examine an upgraded bus service using City Link and the Tullamarine Freeway.

Conclusion

The business case contained adequate information and analysis to support government decision-making about the project. It included everything we expected to find in a good business case. On this basis, the government's decision not to proceed with a rail link to the airport was well founded.

2.2.5 Was the project delivered on time and on budget?

The project budget was established by the government at $20 million and the project timelines were:

- phase 1 - delivery of a business case for the project, by late 2001
- phase 2 – implementation of an enhanced bus service, by early 2003.

We expected the airport transit link project to be delivered within the budget and timeline expectations established by the government.

Phase one – involving development of the business case - was completed in November 2001, which was on time.

In phase 2, the state was obliged to complete traffic management measures and road alterations to reduce travel times for the enhanced bus service. VicRoads was allocated $3.045 million for these measures and works, and was required to complete them by December 2002. The road works were completed and commissioned by 10 February 2003. However, traffic signal works in the city were not commissioned until 9 April 2003.

When deciding not to construct the rail link, the government allocated about $3 million of the $20 million project budget for the road and traffic management works. It also allocated up to $10 million from the project budget for compensation and land acquisition costs for the Albion East corridor. The $10 million figure was based on valuation advice to DoI in September 2000. This budget allocation for compensation and land acquisition costs was subsequently increased to $13 million.

Figure 2.2E shows expenditure on the airport transit link project on an annual basis from 2000-01 onwards in comparison with the overall project budget of $20 million, and reveals that project expenditure to date has been well below the initial project budget.

FIGURE 2.2E: AIRPORT TRANSIT LINK PROJECT EXPENDITURE AGAINST BUDGET ($000)

Expenditure	2000-01	2001-02	2002-03	2003-04	Total	Budget
Salary costs	86	45	2	1	134	(a)
Cost of consultants and contractors	1 798	1 320	93	-	3 211	(a)
Legal costs	158	126	10	5	299	(a)
Administrative costs	264	25	28	-	317	(a)
Sub total	**2 306**	**1 516**	**133**	**6**	**3 961**	**3 961**
Cost of traffic management measures and road works required for enhanced bus service	-	-	3 045	-	3 045	3 045
Costs associated with reservation of corridor for potential future rail link	-	-	-	152	152	12 994
Total	**2 306**	**1 516**	**3 178**	**158**	**7 158**	**20 000**

(a) There was no specific budget established for these costs.
Source: Department of Infrastructure.

Conclusion

While the project has been completed below budget and largely on time, the project budget of $20 million assumed that construction of a rail link was a predominant option for delivery of the project objectives. The costs of a rail link would have been much higher than the costs of enhancing the bus service.

Should a rail link to the airport be pursued at some time in the future, the $13 million component of the project budget allocated for acquiring land and compensating owners along the Albion East corridor will almost certainly prove to be too low. This is because the valuation advice supporting this allocation was given in September 2000, and property values have since risen considerably. This is also supported by DOI's experience to date with compensation claims.

DOI advised that it will seek updated valuation advice on a "property-by-property" basis when required to respond to compensation claims. However, it will not seek updated advice on the likely costs of acquiring land along the whole Albion East corridor until required for the government to make a decision on whether to proceed with the construction of a rail link.

2.2.6 Were project objectives achieved?

In assessing whether project objectives were achieved, we examined whether the government decision to enhance the bus service was implemented so as to achieve the project objectives relating to lower travel times and increased patronage. We expected that the agreement between the government and the bus operator would specify travel times and require the operator to provide actual travel times and patronage data. The other project objectives we assessed performance against were:

- transport services – an airport transit link that is competitive with road transport in terms of pricing, journey time, service quality and convenience
- value-for-money – to minimise the longer-term cost to taxpayers associated with the operation, capital works and maintenance of an airport transit link, within a *Partnership Victoria* framework
- risk transfer – to transfer risk to the private sector where it represents value-for-money
- public amenity – to ensure community concerns, environmental issues and other social issues are addressed in a transparent and accountable manner.

Project documents show that the government wanted the bus service enhancements to increase the level of patronage for an airport rapid transit link. As well, the government indicated in June 2002 and February 2003 that it wanted the enhanced service to provide the trip between the city and airport in around 20 minutes in peak times. This meant halving the average peak hour time on the bus service before it was enhanced.

The state had previously entered into an agreement with BTI Pty Ltd, trading as "Skybus", to operate an airport bus service to and from Melbourne Airport to Spencer Street Station for a period of 10 years, in April 1997. The agreement provided Skybus with exclusive rights to operate the central business district to Melbourne airport service until 2007.

An amended contract between the Skybus operator and the state was entered into in June 2002 to implement the enhanced service. It did not specify target maximum travel times for the service.

The cost of enhancing the bus service was estimated as $10 million. Of this, $3 million was to be funded by the state to alter the Tullamarine Freeway near Essendon Airport, to give Skybus access to emergency lanes during peak traffic times and to implement traffic management measures on Spencer Street and through West Melbourne and the city. The remaining $7 million was to be funded by Skybus.

The amended contract between the Skybus operator and the state provides an entitlement for the state to receive a share of the increased revenue derived by Skybus from the enhanced service when gross revenue exceeds $7 million a year. If gross annual revenue is between $7 million and $9 million, the state receives 7.5 per cent of the excess above $7 million. When gross annual revenue exceeds $9 million in a year, the state's share of excess revenue increases to 10 per cent for that part of revenue above $9 million. The base figure of $7 million was considered by the parties to be the revenue level capable of being maintained by Skybus from the service.

In February 2003, the government and Skybus announced the commencement of the enhanced Skybus service, including the leasing of 6 new buses. This commencement date was around a month after the target date of 1 January 2003 provided for in the contract.

Commencement of the enhanced bus service was announced on 10 February 2003 when the roadworks were commissioned. The state did not commission traffic signal works in the city provided for in the amended service contract until 9 April 2003. This was around 3 months after the state's target date. Under the contract, the revenue sharing arrangements did not commence until the first whole calendar month after these works were commissioned. As a result, the revenue sharing arrangements applied from May 2003.

The amended service contract required the existing bus fleet to be replaced with new buses by July 2003. This target was met: with 6 new buses in service by July 2003. A further 2 buses were put into service by the operator in August 2003.

DoI has been advised by the Skybus operator that the enhanced bus service is not achieving the targeted peak travel time of 20 minutes for journeys from between the city and the airport during peak travel times on weekdays. Average travel times during other times on weekdays and at all times on weekends are consistently meeting the 20 minute target.

Patronage levels for the enhanced bus service are higher than they were before the enhanced service. The average monthly patronage level in the 11 months following the commissioning of the traffic enhancements and roadworks in April 2003 was 79 800, some 24 per cent higher than the average monthly patronage level in the 11 months prior to April 2003, of 64 400.

The Skybus operator has not taken up its option under the amended service contract to extend the bus service along a city circle route, and to install a new bus stop(s) at the eastern end of Collins Street. The project's business case estimated that extending the service from Spencer Street to the eastern end of the city would increase patronage by some 400 000 passengers a year by 2008-09.

The city circle route option has not been implemented because efforts by DoI and the Skybus operator to reach agreement with other relevant parties to provide the Skybus service with priority left hand turns within the city, and access to tram tracks on La Trobe Street, were not successful. These measures were considered important to ensuring an attractive transit time for patrons of the proposed city circle route.

In terms of the other objectives for the project, the enhanced bus service is generally delivering better travel times than other road transport; has minimised the longer-term costs to taxpayers due the low capital investment required and the absence of operating subsidies; has transferred business risk to the private sector because Skybus is bearing the demand risk for the service with no financial assistance required from government, and community and environmental concerns regarding the construction of a rail link have been addressed by the government decision not to do so for at least 10 years.

Conclusion

While the government's objectives for the Airport Transit Link Project have been largely achieved by the enhanced bus service, its expectation that peak travel times between the airport and the city will be consistently around 20 minutes or less has not been met.

Given the importance placed by government on reducing bus trip times, we expected that the amended contract with the service operator would specify target trip times. It does not. There is a need for the Department of Infrastructure to continue monitoring trip times to inform government decisions about the need for, and timing of, any future airport transport link, and about the need for further traffic management and road works to reduce bus travel times.

Delays in commissioning works undertaken by the state to facilitate the enhanced bus service led to a delay in the commencement of revenue sharing arrangements. This reduced the state's share of revenue derived from the service during its first few months of operation.

The Skybus operator has, to date, not pursued its option to extend the service through a city circle route and install a new bus stop(s) at the eastern end of Collins Street. The business case for the project indicated that the city circle route would increase patronage and, therefore, revenue generated by the service. The operator's decision means that the state is likely to receive a lower level of income from the service than it would have received if the city circle route was in operation.

Recommendations

That the Department of Infrastructure:

2. **Negotiates with the Skybus operator to include in the service contract a target maximum travel time for the service**
3. **Seeks to resolve the issues which have led to the Skybus operator not pursuing the city circle route option**
4. **Ensures that tenderers for the bus service in 2007 commit to investigating the feasibility of a city circle route, if the 2001 business case assessment that such a route would increase patronage is shown to be still valid.**

2.2.7 Have remaining issues been managed adequately?

In assessing whether residual issues have been managed adequately, we examined if DoI was adequately:

- managing processes and costs to reserve the Albion East corridor and work with the Melbourne airport operator toward a future rail link
- monitoring the revenue sharing arrangements established with the Skybus operator.

By law, land must be reserved for a public purpose before it can be compulsorily acquired by the government. In February 2001, and after public consultation, the Minister for Planning introduced proposed amendments to 6 relevant planning schemes to reserve land in the Broadmeadows and Albion corridors.

If proposed planning scheme amendments are not confirmed they expire after 2 years. In 2003, the proposed amendments for the Albion East and Albion West corridors were extended till 31 January 2005. The Department of Sustainability and Environment intends to confirm the amendment for the Albion East corridor by mid-2004. The planning scheme amendments for the Albion West route were abandoned on 30 April 2003. This occurred after the Melbourne Airport operator published the Preliminary Draft Airport Masterplan in March 2003, which provided for the Albion East route only.

By law, land owners affected by planning scheme amendments can submit compensation claims to the relevant planning authority (in this case, the government). The government has received 3 compensation claims to date relating to the planning scheme amendments for the airport transit link. In one case, on the Albion East route, the government offered $4.2 million to settle the claim. In another case, a property developer started Supreme Court proceedings against the Minister for Planning for $3.5 million compensation for losses due to the government's objection to its proposed development along the Albion West route. The government expects further compensation claims to be lodged.

The government's actions to date have established its right to reserve land in the Albion East corridor to construct a rail link in future. Should it decide to do so, it will need to acquire the land and compensate owners. In the meantime, land owners may use the affected land subject to the limitations imposed by the reservation for a public purpose. There is provision for the owners to seek compensation in the event that the state's amendment restricts them from a use they would otherwise be able to pursue. For example, a land owner's capacity to subdivide and sell land within the area affected by the proposed amendment would be removed through action by the government to refuse to grant a permit for the subdivision, thereby providing a trigger for the owner to seek compensation. The government would take this action to allow it to ultimately secure the land at the most effective price.

To build the rail link, some airport land would also need to be acquired or leased. Melbourne airport is operated under lease by Australia Pacific Airports (Melbourne) Pty Ltd on land owned by the Commonwealth Government. Any works on airport land are subject to the Commonwealth's *Airports Act 1996* and not to state planning controls. Therefore, the state cannot compulsorily acquire airport land, and plans to build a rail link to the airport in future will need the cooperation of the airport operator and the Commonwealth Government.

In 1998, the airport operator prepared the Melbourne Airport Environment Strategy and the Melbourne Airport Master Plan. These were approved by the Commonwealth Government. The master plan is updated every 5 years. The 1998 master plan only allowed for the Albion West and Broadmeadows rail link corridors. The plan was updated in 2003 and now provides for possible future rail access along the Albion East corridor only. The master plan also says that the operator will seek compensation from the state for any part of a future rail link that is above ground.

The state recently started discussions with the airport operator about compensation that might be payable for the above-ground parts of a future rail link on airport land. The state is prepared to negotiate compensation for the operator, as it would for land owners affected by the off-airport component of the route, given that the above-ground component of a future rail link might restrict the operator's capacity to use the land for other commercial purposes.

The Valuer-General's Office appointed valuers in February 2004 to value the affected airport land. Negotiations are expected to be complex and will involve the Commonwealth Government at some point.

In September 2000, DoI received independent valuation advice which estimated total property acquisition compensation payable for the Albion East route would be around $9 million. This included an estimate for airport land of $1.4 million, on the basis that the airport land to be acquired was estimated at 13.8 hectares. Subsequent investigations estimate the area of airport land required for a rail link at 29.7 hectares which means that even if property values had not grown since September 2000, the amount of compensation likely to be payable to the airport would be significantly more than $1.4 million due to the increased area of land required.

The amended service contract between the Skybus operator and the state establishes revenue sharing arrangements for the enhanced bus service. Under the contract, revenue from the service, above a threshold level specified in the contract, was to be first shared for the months of May and June 2003. The state's share of the operator's revenue from the enhanced bus service for these 2 months was $12 984. This amount was not finally determined and paid by the operator until March 2004.

The service contract requires that the operator's calculation and payment of the state's revenue share must be accompanied by a certificate from a chartered accountant. This must certify that the calculation and payment conform with the requirements of the contract, and that the gross annual revenue of the operator arising from the provision of the services in the relevant financial year is true and correct. The Secretary of the Department has the right to object to the chartered accountant proposed by the operator. The operator has not consulted the Department on its appointment of a chartered accountant to provide certification of the revenue sharing calculations.

Conclusion

Given the increased area of airport land expected to be required for the future rail link, and increases in Melbourne's property values, the September 2000 estimate of $1.4 million in compensation for the airport operator is likely to be much less than what might be eventually required.

The state will need to ensure effective ongoing monitoring of the revenue sharing arrangements for the enhanced bus service so as to ensure that the operator complies with the contract regarding the calculation and certification of the revenue share and that the state receives its full entitlements.

Recommendations

That the Department of Infrastructure:

5. **Ensures that the chartered accountant currently employed by the operator for the purpose of certifying revenue sharing calculations for the enhanced bus service is sufficiently independent from the operator.**
6. **Ensures more timely reporting and payment of the state's share of revenue from the service.**

2.3 How well did the Department of Infrastructure plan and manage the restoration of country passenger rail services?

2.3.1 Audit conclusion

The government's commitment to restore passenger rail services to 4 regional areas has not yet been achieved. At the time of this audit, works had progressed on 2 of these lines (Ararat, Bairnsdale). In late April 2004, the Minister for Transport announced the Bairnsdale line would re-open on 2 May 2004.

The commencement of the 2 services was nine months behind the targeted completion date. The final cost to complete the works is expected to exceed the revised capital budget ($25.9 million) by 26 per cent and total $32.7 million. The government is yet to announce a course of action on the other 2 lines (Mildura, South Gippsland).

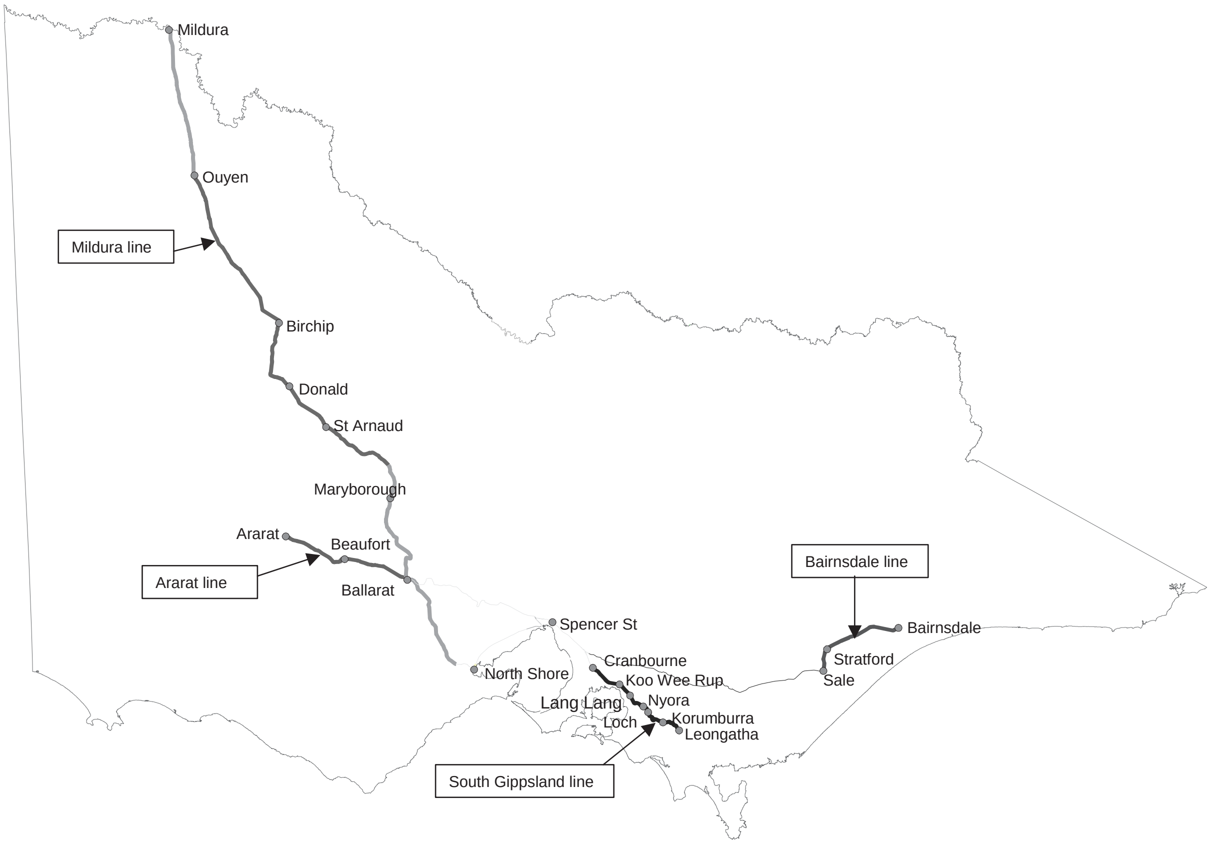
The Department of Infrastructure did not adequately plan for and manage the project. More could have been done to test the reliability of initial cost estimates provided by one of the private sector operators and specialists, and to address the risks to scheduled project delivery known to exist at the start of the project. These weaknesses contributed to the project going over budget and over time. The department has since introduced rigorous guidelines and review processes aimed at improving its planning and management of major projects.

2.3.2 Background

Transport services are important for regional development, tourism and employment. In 1993-94, the previous government closed passenger rail services on lines to Ararat, Bairnsdale, Mildura and South Gippsland, and replaced them with road coaches. From this time, with the exception of Mildura, the lines were closed to freight services. Freight operations continued on the Mildura line and resumed on the Bairnsdale line in November 1999. The other 2 lines remained closed to all forms of rail traffic.

In 1999, as a pre-election commitment, the current government undertook to review the closure of the 4 lines. The government also indicated that it would seek to involve the private sector in providing services. Figure 2.3A shows the services to be reintroduced.

FIGURE 2.3A: REINTRODUCED COUNTRY PASSENGER RAIL SERVICES



Source: Department of Infrastructure.

Restoration of the 4 country passenger rail services forms part of the government's *Linking Victoria* initiative. Launched in February 2000, this initiative is the blueprint for over $1.5 billion of transport infrastructure development to be undertaken within Victoria.

Figure 2.3B shows the key events that have occurred since the government's commitment to review these passenger services.

FIGURE 2.3B: SUMMARY OF KEY EVENTS

Year	Key events
October 1999	Commitment to review closure of country rail passenger services to Ararat, Bairnsdale, Mildura and South Gippsland (a)
January-December 2000	Feasibility studies conducted for 4 lines
May 2001	Government announces restoration of passenger rail services on the 4 lines
May 2001	Budget of $32.7 million allocated for capital costs to restore passenger services on the 4 lines
Mid-2001 to late 2002	Detailed engineering design done, construction scope and cost finalised for the Ararat and Bairnsdale lines, and preliminary estimates done for the Mildura and South Gippsland lines
November 2002	Call for tenders for Ararat and Bairnsdale lines
January 2003	Final budget allocation of $25.9 million capital costs to restore the Ararat and Bairnsdale lines and contractor engaged for the 2 lines
March 2003	Construction works commence on the 2 lines
July 2003	Target date for start of service on the 2 lines
Mid-2004	Revised date for start of service on the 2 lines

(a) A commitment was also made at this time to review the restoration of passenger services to Cobram. In October 2000, the government announced that, based on the findings of the feasibility study, restoration of services between Cobram and Shepparton could not be justified and they would not be resumed.

Source: Victorian Auditor-General's Office.

The government's expectation for delivery of this project was to reduce passenger travel times. This was to be achieved through upgrade of the rail infrastructure to enable passenger trains to run at faster speeds than freight services.

Primary responsibility for planning and managing the project was assigned to the Department of Infrastructure. Planning and implementation of the project took place at a time when:

- the department had little rail construction project management experience and no previous experience in opening a rail line
- access to relevant knowledge and technical expertise within the building and construction industry was limited
- standards for assessing workmanship quality were not uniform
- complex rail privatisation and franchising arrangements were recently introduced. The project required management of relationships under franchise and infrastructure lease agreements between multiple private rail operators, the government and contractors.

Purpose and scope of audit

The objective of the audit was to review the adequacy of the Department of Infrastructure's project planning and management of the restoration of country passenger rail services.

The audit assessed the department's planning processes for the restoration of passenger services to all 4 lines. The department's management of the project was reviewed only for the Ararat and Bairnsdale lines. At the date of this audit, no work had been done for the Mildura and South Gippsland lines beyond the pre-construction phase.

2.3.3 Did the department adequately plan for the project?

Sound capital works planning processes involve clear project prioritisation and justification, including alignment with government policy and preparation of feasibility studies.

In assessing whether the department adequately planned for the project, we examined its planning against the characteristics of effective planning shown in Figure 2.3C. The figure also shows the results of this assessment.

FIGURE 2.3C: PROJECT PLANNING SCORECARD

Characteristics of effective planning	Yes	To some extent	No
Was the project need, priority and objective clearly defined?	✓		
Was the project clearly aligned with government policy and strategic direction?	✓		
Did the feasibility studies include:			
• a clear statement of project need and objectives?	✓		
• consultation with relevant stakeholders?	✓		
• assessment of a range of options to meet project objective and identification of preferred option?	✓		
• consideration of passenger safety issues?	✓		
• consideration of project impact and benefits?	✓		
• assessment of project risks/contingencies?			✓
• assessment of the required scope of works and estimates of capital works and ongoing operating costs?		✓	
• adequate project governance arrangements?		✓	

Source: Victorian Auditor-General's Office.

In the next paragraphs, we examine characteristics that were met to some extent or not met at all.

Risk assessment

Risk assessment is an important part of project planning. It requires the identification of risks, their classification according to likelihood and severity, and the preparation of a preliminary risk management plan.

The department knew of a number of risks that might affect the scheduled delivery of the project. These were that:

- the scope of construction might be larger than estimated
- the project cost, expected passenger numbers and revenue estimates might not be accurate
- the department might not have the capacity to effectively manage relationships with the private sector agencies whose cooperation was required to implement the project
- the implementation environment was difficult and complex. Responsibility for maintenance of the rail infrastructure recently passed from government to private operators and agreements with the private operators covering track access was not finalised.

Despite knowing of these risks, the department did not document them or develop a preliminary risk management plan as part of the feasibility studies. Such information should have been available to ensure that the government was fully informed regarding the project risks when making decisions on the project in May 2001.

Recognising the weakness of this approach, the department issued risk evaluation guidelines in January 2003. These will be used to evaluate risk when preparing business cases in the future.

Project scope and costs

Feasibility studies are the foundation of effective project planning and management. Key elements include:

- a clear methodology
- rigorous assessment of project scope and costs
- robust analysis of the options for project delivery.

The department was required by the government to consult with communities in the 4 rail corridors, assess a range of options and advise on project costs. No specific guidelines were developed by the department for these feasibility studies.

As a condition of its franchise agreement with the state, one of the private sector operators assessed operational issues, including expected number of required drivers and availability of rail stock, and estimated operating subsidies for the Ararat and Bairnsdale lines. The operator obtained specialist advice on the condition of existing infrastructure, expected number of passengers and revenue estimates, and the costs and benefits of restoring the passenger services for the Ararat and Bairnsdale lines.

These studies were completed by the operator and specialists in the first half of 2000. The department had no direct oversight of these studies.

The department engaged specialists to provide comparable advice for the Mildura and South Gippsland lines. The specialists advised about the condition of the existing infrastructure, the required scope of works and estimated costs, expected numbers of passengers and revenue estimates.

This advice, which formed the basis for the feasibility studies for the Mildura and South Gippsland lines, was completed by the specialists in late 2000. Project consultative committees, established by the minister for each of the lines, reviewed the work undertaken by the specialists. Regular meetings were also held between the specialist and the project manager. However, the department had limited documentation regarding the activities of the project consultative committees and no formal records of meetings with the specialists.

The reports by the rail operator and specialists formed the basis of a feasibility study report prepared for each line by the department. The department accepted the advice provided by the operator and the specialists without independently confirming the reliability of this information.

The department recommended, based on the 4 feasibility studies, that government approve an initial capital budget of $32.7 million and a $12.4 million annual operating subsidy to cover all 4 lines. This recommendation was accepted in May 2001.

Detailed engineering assessments during the pre-construction phase of the project (2001 to 2002) showed that the initial project scope and cost estimates for all 4 lines were significantly underestimated. Figure 2.3G shows the extent of these underestimations.

Recognising these issues, the department issued cost estimating guidelines in December 2002. The purpose of these guidelines is to give staff the tools to make accurate and comprehensive estimates in the future.

Governance arrangements

The establishment of adequate governance arrangements is essential to successful project delivery. Key elements include a clear methodology to guide the project, appointment of a project manager, regular communication and consultation between the parties and regular monitoring and reporting processes.

As indicated, at the outset of the project the department did not establish a clear methodology to guide all 4 feasibility studies and exercised limited oversight of the work undertaken by the private sector operator and specialists.

Recognising this as a shortcoming, the department established a Project Review Committee in September 2002. This committee was to ensure greater rigour in the planning, development and costing of all major infrastructure projects, which are now subject to a 3-stage review[2] before being submitted to Cabinet. Reviews cover the alignment of projects to government policy, the consideration of options for achieving project objectives and the development of a business case.

Since April 2003, the department's Project Governance and Review Group has checked to ensure that new projects have a robust business case, and are clearly scoped and accurately costed before they are reviewed by the Project Review Committee. The group also prepared business case guidelines during 2003 to assist in the development of departmental projects. These guidelines are reviewed and updated on an ongoing basis.

Conclusion

The department's processes to guide the planning and development of the feasibility studies for the 4 lines, and to test the rigour and robustness of the cost estimates and work done by the rail operator and specialists were not adequate. A comprehensive risk management plan was also not prepared for the project. The department has since taken action to address the weaknesses in its project planning and development processes.

Recommendation

7. **That the department regularly reviews the adequacy of its project planning and development guidelines, processes and documentation to ensure that these are contributing to effective project development practices.**

[2] This 3-stage review process is in line with the Department of Treasury and Finance guidelines on business case development endorsed by the government in August 2003.

RESPONSE provided by Secretary, Department of Infrastructure

The department accepts and is implementing this recommendation.

In the first half of 2003, a detailed review of the operations of the department's Project Review Committee was undertaken. The recommendations from this review have largely been implemented, resulting in a further strengthening of the department's project planning and development processes. The department continues to review the adequacy of these processes.

2.3.4 How well did the department manage the tender process?

In November 2002, the department called for tenders from construction firms to carry out the necessary works on the Ararat and Bairnsdale lines. These included upgrading sections of the track, repairing bridges, protecting level crossings and improving signalling equipment. This work was necessary to meet safety standards required to operate passenger services. Following assessment of tenders, a contract was signed with the successful construction company for both lines in January 2003 for works totalling $20 million.

In assessing how well the department managed the tender process, we examined its performance against the characteristics of effective tendering shown in Figure 2.3D. The figure also shows the results of this assessment.

FIGURE 2.3D: TENDER MANAGEMENT SCORECARD

Characteristics of effective tendering	Yes
Were there clear and comprehensive tender documents?	✓
Were the requirements relating to tendering for, and engagement of, contractors followed? (a)	✓
Were contracts legally sound?	✓
Did contracts include:	
• a clear description of project objectives?	✓
• a clear description of roles, expectations and obligations of all parties and duration of the agreement?	✓
• milestones and key deliverables of the project and reporting requirements?	✓
• risk management processes?	✓
• dispute resolution procedures?	✓

(a) The department must comply with the provisions in the government's Code of Practice for the Building and Construction Industry and Ministerial Direction No. 1 – Tendering Provisions for Public Constructions and Ministerial Direction No. 2 – Contractual Provisions for Public Construction, issued under the *Project Development and Construction Management Act 1994*.

Source: Victorian Auditor-General's Office.

Conclusion

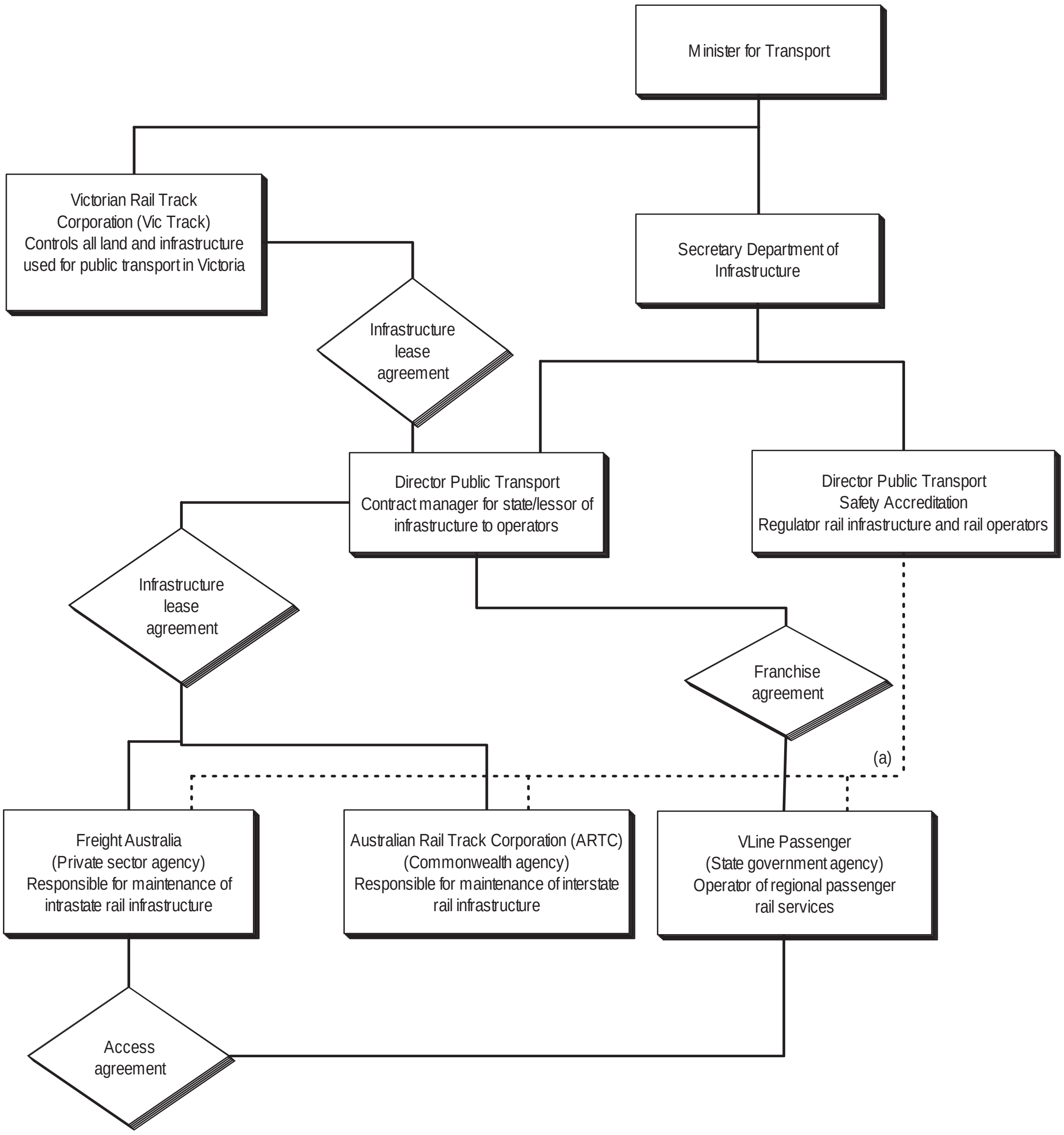
The department demonstrated sound management of the tender process for the project and compliance with government requirements. The contractual arrangements established for the project were also sound.

2.3.5 How well did the department manage the contract and project?

For this project, the Director of Public Transport (representing the state) and several private sector operators work together under the terms of franchise, access and infrastructure lease agreements. Cooperation between these parties is critical to project delivery.

Figure 2.3E shows the complex inter-relationships between the key project stakeholders.

FIGURE 2.3E: KEY PROJECT STAKEHOLDERS, MARCH 2004



(a) The dotted line signifies the relationship with the Director Public Transport Safety for safety regulation purposes only.

Source: Victorian Auditor-General's Office.

The department also managed the contractor engaged to undertake the project works.

In assessing how well the department managed the contract and project, we examined its performance against the characteristics of effective contract and project management shown in Figure 2.3F. The figure also shows the results of this assessment.

FIGURE 2.3F: CONTRACT AND PROJECT MANAGEMENT SCORECARD

Characteristics of effective contract and project management	Yes	To some extent	No
Did the contract/project management processes include:			
• a definition of project purpose, scope, time, cost and quality?	✓		
• a project brief?	✓		
• appointment of a project manager and project management committee?	✓		
• risk management processes?		✓	
• regular monitoring and reporting of contractor and overall project performance and processes to address deviations?		✓	
• processes to address non-compliance with contract/agreement conditions?	✓		
Were there clearly documented policies and contract/project management procedural manuals?		✓	

Source: Victorian Auditor-General's Office.

In the next paragraphs, we examine characteristics that were met to some extent.

Risk management

Good risk management practice is essential to effective project management. It involves ongoing management and regular review of project risks, and the development of a risk management plan. The types of risks normally dealt with include:

- commercial risks with business relationships (such as a contracted company ceases to trade)
- operational risks with business activities (such as key people leave)
- technical risks with assets (such as equipment fails)
- financial risks with financial controls and systems (such as budgets are overspent)
- compliance risks with meeting regulatory obligations (such as action does not comply with requirements).

Before construction started, the technical risks associated with the project were assessed by key stakeholders. These included representatives from National Express, the Australian Rail Track Corporation, Freight Australia, Victorian Rail Track Corporation, VicRoads, local councils and the department. These risks were then monitored during construction.

Rail operators must notify the Rail Safety Regulator[3] of any proposed changes to the risk profile of the rail infrastructure as a result of construction works. The regulator must approve these changes before services can operate. This is known as the "material change process". The format and process for submitting changes and the regulator's method for accepting them is not clearly defined.

Ongoing and emerging project risks during the construction period, including operational, financial, commercial and technical risks, were regularly monitored by the project manager. Most of the monthly project reports to the departmental management committee document these risks and responsibilities for overcoming them. The department, however, has limited documentation that substantiates the action taken to address key risks. In particular, risks to scheduled project delivery associated with the material change process. The department did not prepare an overall risk management strategy which includes all relevant project risks.

Contract and project monitoring

Regular monitoring of the performance of contractors, and overall project status against key milestones, is a critical part of effective project management.

The department's project team regularly monitored the progress of the contractor and the project's overall performance against cost, quality and time targets. Monthly project reports and fortnightly activity reports provided details of project progress against key time and cost milestones. Regular formal and informal meetings were also held with the contractor and key stakeholders to review progress.

Figure 2.3G shows the progress of the project (cost and time) against the initial approved budget and the final approved budget.

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[3] Rail operators must be accredited by the state's Rail Safety Regulator to operate a railway in Victoria. Operators must ensure rail safety on its rail network and with its operations, and must notify the regulator of any changes to operations. The Rail Safety Regulator is the person responsible for ensuring rail safety in Victoria.

FIGURE 2.3G: ESTIMATED AND REVISED COSTS AND TIMELINES
($m)

Line	Target completion date	Revised completion date	Capital costs (a)			Annual operating subsidies	
			Initial	Revised	Actual (b)	Initial estimate	Revised estimate
Ararat	June 2003	mid-2004	5.4	9.8	10.09	1.89	2.1
Bairnsdale	June 2003	mid-2004	14.0	16.1	15.37	2.56	2.4
Mildura	Late 2004	(c)	7.7	(c)	0.68	4.97	(c)
South Gippsland	Late 2004	(c)	5.6	(c)	1.22	2.97	(c)
Total			**32.7**	**(d) 25.9**	**27.36**	**12.39**	**4.5**

(a) Costs for project development were apportioned across all 4 lines up to the time of the 2003 Cabinet submission. Some construction work was undertaken on the South Gippsland line to allow the South Gippsland tourist railway to operate tourist steam trains between Nyora and Leongatha.

(b) Confirmed expenditure is to 29 February 2004.

(c) At the date of this audit, no work had been done for the Mildura and South Gippsland lines beyond the pre-construction phase.

(d) The revised capital cost of $25.9 million comprised $20 million for the contract for major works and $5.9 million for contingency costs, minor works and project management costs.

Source: Victorian Auditor-General's Office.

Figure 2.3G shows that, at the time of this audit, the Ararat and Bairnsdale lines were well behind (9 months) their target completion dates.

The department estimates (April 2004) that the final capital cost to restore these 2 lines will be around $32 million. In addition, on completion of the Bairnsdale line, services will initially be run at a lower speed than that specified by government for project delivery. In late April 2004, the Minister for Transport announced the Bairnsdale line would re-open on 2 May 2004.

The delays and cost increases in restoring passenger services on the Ararat and Bairnsdale lines were mainly due to:

- the need to complete major works beyond those specified in the original scope, in particular:
  - the Avon River bridge on the Bairnsdale line. This resulted in a 10-week delay to the project at a cost of around $412 000. This bridge is the most significant structure on the Bairnsdale line and one of the longest bridges on the Victorian rail network. The bridge's advanced stage of deterioration was one of the reasons for the original closure of the Bairnsdale line 10 years earlier
  - the signalling facilities at Ararat. Several months after construction commenced, a change was required to the facilities that were originally agreed to. This delayed the project by 3 months at an additional cost of $500 000

- the department's underestimation of the time required for the management of the complex relationships with the 2 rail infrastructure lessees concerning the quality and standard of the works and activities for final approval and safety accreditation.

During the construction period (March to June 2003), the department attempted to retain the cooperation of the 2 rail infrastructure lessees through regular communication. Senior management review of progress was held fortnightly with the intrastate rail infrastructure lessee, and this was elevated to weekly meetings in October 2003 to try and resolve the problems.

A further delay occurred in November 2003 when a freight train at Ararat Junction was derailed from the standard gauge line. The derailment caused extensive damage to the newly completed signalling and track work and to the complex cross-over between the standard gauge and broad gauge lines. The required rectification works and commissioning were completed at the beginning of April 2004.

Expansion of the project scope, long design and construction times associated with bridge works and signalling and contractual requirements were all recognised early in the project as potential major threats to scheduled project completion. The department has little documentation supporting their action to address these threats.

Policies, procedures and management processes

Clear and comprehensive policies, procedures and processes are important to guide staff and facilitate consistency in the day-to-day management of contracts and projects.

To manage the contracts, the department's project team used:

- *Contracting at DOI,* an online system, introduced in 1999, to provide comprehensive guidelines and information about contracting processes
- a departmental procedures manual, developed in 2001, to provide guidelines on contract management and tender processes.

However, the department did not have written project management policies, procedures and processes specific to major infrastructure projects. The project team followed general project management principles.

Recognising this weakness, the department has now taken steps to improve its project management. These include establishing:

- *Project managing at DOI,* a project to set up protocols, guidelines and supporting systems for project management by the department
- the Project Review Committee which aims to ensure greater rigour in the planning, development and costing of all major infrastructure projects

- the Capital Subcommittee, which monitors all capital projects, in particular, those involving major capital expenditure or major risk following approval by the Project Review Committee
- the Project Governance and Review Group, which monitors and reviews all departmental projects from initial selection to implementation and achievement of project outcomes.

Conclusion

The department's policies and procedures to guide the management of the project were not adequate. There was no overall risk management plan for the project and the department did not take enough action, or quickly enough, to address these risks. These weaknesses, inadequate scoping and costing of works in the feasibility studies, together with difficulties in management of the complex relationships with the rail infrastructure lessees, contributed to the project not yet being completed.

The department has since introduced processes and guidelines to assist in improved project management practices.

Recommendations

8. **That the department regularly review the adequacy of its project management guidelines, processes and documentation to ensure these are contributing to effective project management practices.**

9. **That the department review its management of contractual arrangements with private sector operators on major infrastructure projects to achieve project objectives and reduce the likelihood of future projects going over budget and time.**

RESPONSE provided by Secretary, Department of Infrastructure

The department accepts and is implementing these recommendations.

The report lists a number of actions the department has taken to improve its project management. This is an ongoing exercise. In addition, internal processes, including the establishment of the Capital Group within the department and the establishment of the Capital Subcommittee, ensure that learnings from one project are shared with other projects in a timely manner.

2.4 Was progress on the Australian Synchrotron Project satisfactory?

2.4.1 Audit conclusions

The project has been well managed by a professional and skilled team and is currently running to plan, and on time. No cost over-runs have occurred.

The project was based on a comprehensive and thought-through business case supported by expert advice and information.

An adequate project governance structure is currently in place, evidenced by regular reporting to key stakeholders and effective risk management procedures. The operational governance structure of the synchrotron, including all key funding stakeholders, will need to be established before construction is completed. Synchrotron users are expected to be the key stakeholders due to their involvement in the development of the project and because they will share in the capital and operating costs.

The key financial risks have been adequately managed to date. It is too early to determine whether there will be a funding shortfall for the costs of either the construction of beamlines or the operation of the synchrotron facility, which are to be met by users. There is the risk that the state may be required to meet any funding shortfall. However, the project team's plans to raise funds to meet both costs are adequate. The team has identified possible funding partners and secured commitments from some of them.

Delivery risks have been identified and well managed to date. Extensive national and international consultations have been held with scientists and other stakeholders, which reflects the importance attached to satisfying current and future user needs.

RESPONSE provided by Secretary, Department of Innovation, Industry and Regional Development

The department supports the report as factually correct and fair. The department agrees with the audit conclusions and recommendations.

Detailed negotiations with stakeholders in relation to funding, both capital and operating are proceeding to plan and are expected to be progressively finalised before 2007. The development of a governance framework for the operating phase as recommended by the audit is underway in close consultation with stakeholders.

2.4.2 About the project

The synchrotron is a system of electro-magnets that speed electrons to massive velocities, emitting intense but highly controllable beams of electro-magnetic radiation ranging from light to X-rays.

The beams are used in:

- biotechnology to analyse the structure of proteins and viruses
- biomedicine to study diseased cells
- the minerals industry to study ores and refining processes
- manufacturing to study materials and in developing fields of micro-manufacturing.

The synchrotron building is under construction and is located next to the Monash University in Clayton, Melbourne.

Figure 2.4A shows the main elements of the synchrotron.

FIGURE 2.4A: A SYNCHROTRON

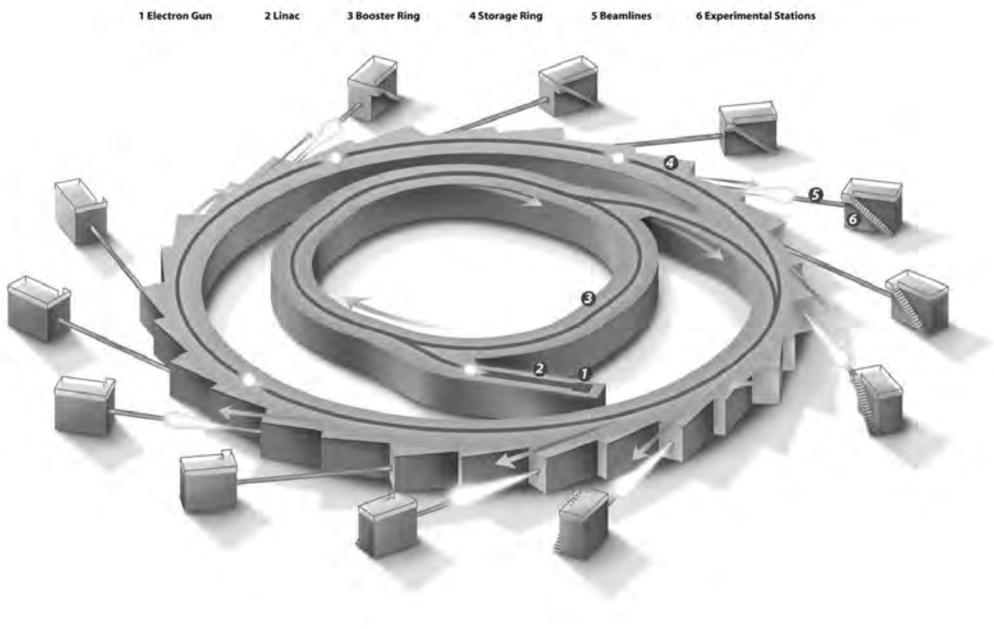


Figure 2.4B shows an artist's impression of the completed synchrotron building.

FIGURE 2.4B: ARTIST'S IMPRESSION OF THE AUSTRALIAN SYNCHROTRON BUILDING

Source: <http://www.synchrotron.vic.gov.au/>

There are currently over 40 synchrotrons around the world. Australian scientists pay to use some of these synchrotrons, losing valuable time traveling overseas to conduct their experiments and competing for beamline access.

The construction of the Australian Synchrotron in Victoria is expected to provide economic benefits for the national and state economies[4]. It is expected to stimulate national research and development and encourage companies and laboratories to locate near the synchrotron.

Audit Scope

Due to the significant public resources (funding) committed to this project, and the level of public interest in the project, we decided to assess its progress.

The audit did not seek to independently verify the cost and benefit estimates derived for the project. Instead, we placed reliance on advice provided to the project team by experts, which was used to establish these estimates. Similarly, the audit did not set out to independently identify the risks associated with the project. Instead, we assessed the adequacy of the processes used by the project team to identify and manage such risks.

[4] Centre for Strategic Economic Studies - Victoria University has undertaken an economic impact study, which highlighted economic benefits incorporated into the business case.

This is the second report by our Office about this major infrastructure project[5]. The first report commented on the development and approval of the project business case in May 2001, as well as the need to establish strong financial management for all stages of the project.

2.4.3 Was the project on time?

We examined whether major project activities have been completed in line with project milestones.

There are 3 main parts to the Australian Synchrotron facility. They are:

- the building that houses the synchrotron
- the core synchrotron facility (electron gun, booster and storage rings)
- the beamlines.

Figure 2.4C shows the project's timelines.

FIGURE 2.4C: PROJECT TIMELINES

Stage	Date
Start construction of the building	September 2003
Hand-over of facility for operational phase	March 2007
Replace beamlines mid-life	2017
Decommissioning date	2032

Source: Australian Synchrotron Project Business Case (May 2001).

As of the date of preparing this report, construction of the building had progressed in accordance with the established milestones.

The design of the core synchrotron facility had been finalised. Tenders for the main components had either been let or were proceeding, and some construction (including off-site pre-fabrication) had started. The contract for the injection system had been awarded, preferred tenders for magnets and vacuum chambers selected and registrations of interest called for the radio frequency tender - all on time.

Conclusion

The project is currently running to plan, and on time.

[5] Victorian Auditor-General's Office, *Report on Public Sector Agencies: Results of special reviews and 31 December 2001 financial statement audits*, June 2002.

2.4.4 Was the project on budget?

We examined whether the project costs to date are in line with approved budgets.

As we reported in June 2002, government's Economic Development and Infrastructure Delivery Committee approved the initial business case for the synchrotron in May 2001. The estimated cost was $157 million. The state's commitment was for $100 million, being for the building and the core synchrotron facility (but not the beamlines). Future users of the facility are expected to fund the beamlines.

In January 2003, the committee endorsed the project's revised business case (based on advice provided in August 2002 by external financial consultants). This business case set out the finalised synchrotron dimensions and construction cost and was based on international experience of synchrotron costs and updated information about user demand for the synchrotron.

The state's funding commitment for the building and the core synchrotron facility was revised from $100 million to $157.2 million (in nominal terms). This is still on the basis that synchrotron users will fund the first 9 beamlines ($49.1 million).

FIGURE 2.4D: AUSTRALIAN SYNCHROTRON BUDGET (NOMINAL, $MILLION)

Item	January 2003 budget
Construction of building	43.8
Core synchrotron facility	113.4
Nine beamlines	49.1
Total	**206.3**

Source: Australian Synchrotron Facility and Operating Business Plan (February 2004).

The reasons the budget increased by $49.3 million from the original $157 million estimate were:

- a revision of costs based on international experience and supplier quotes - $19.9 million
- the selection of a more recent design for a more powerful synchrotron machine (a Boomerang 20, rather than a Boomerang 18, as was specified in the business case approved in May 2001) - $3 million
- higher estimated labour costs, a bigger allowance for contingencies and spares and inclusion of a project team management fee - $13.6 million
- CPI adjustments to the end of the construction period - $12.8 million.

At January 2004, $69.2 million (or 34 per cent of the total construction costs) was committed. The overall project is on schedule.

Total construction and operating costs for the project are estimated to be:

- $206.3 million for the initial capital cost
- $71.1 million for upgrading the core facility over its life and upgrading of beamlines at their mid-life (after 12.5 years)
- $16.3 million a year to operate the synchrotron for the first 5 years.

This report only looks at the initial capital cost, as it is too early to comment on the other costs. These will be reviewed in a later report.

Conclusion

No cost over-runs have happened to date and the construction of the building and the core synchrotron facility is expected to be completed within the budget of $157.2 million.

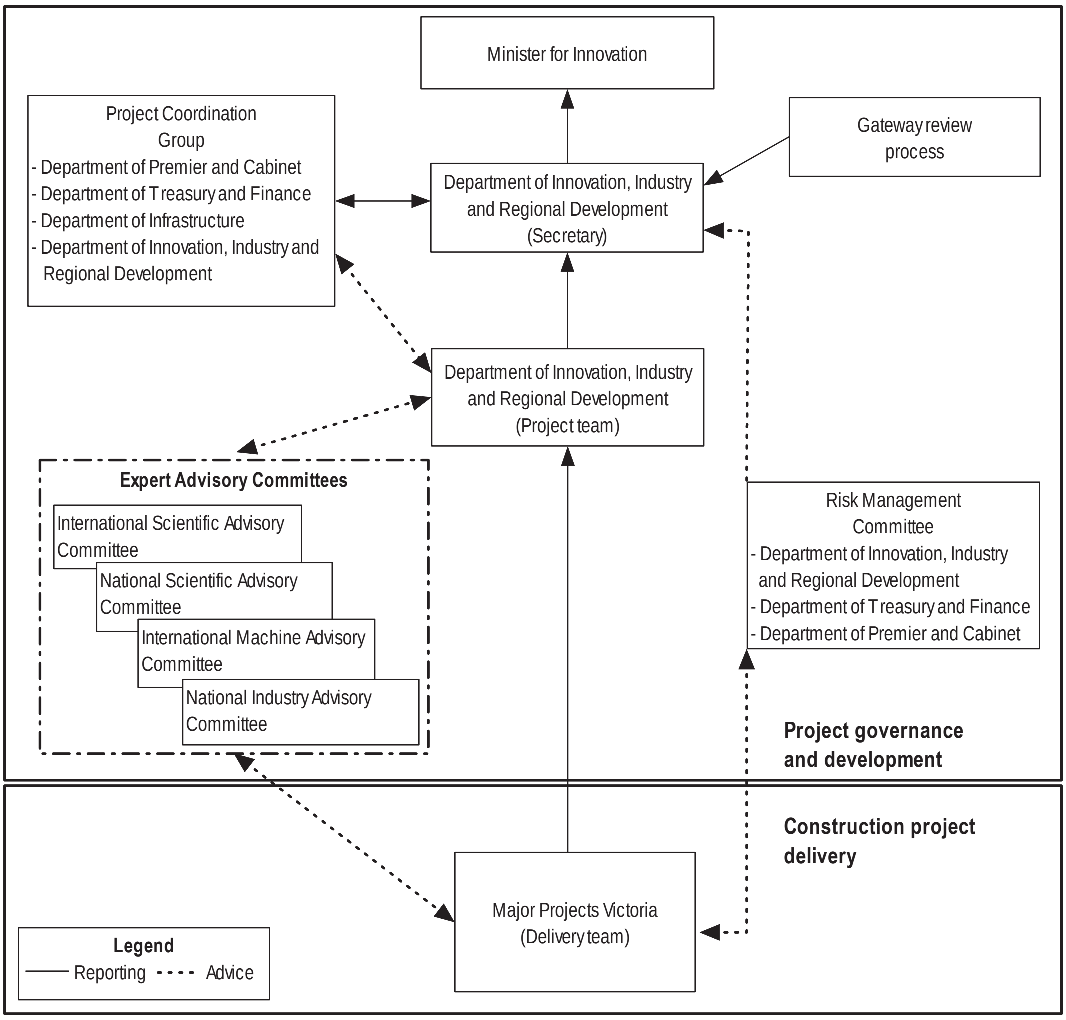
2.4.5 Was the project's governance structure robust?

To assess whether the project's governance structure was robust, we examined if roles and responsibilities were clearly allocated, decisions were timely, and the project was regularly monitored and supported by comprehensive reports made to a project oversight committee and to key stakeholders.

Figure 2.4E shows the project's governance structure. Major Projects Victoria (the delivery team) works closely with the Department of Innovation, Industry and Regional Development (the project team) and must report regularly to it.

The delivery team is responsible for the design management, construction, commissioning, and performance demonstration testing of the synchrotron. This responsibility continues until the Australian Synchrotron is commissioned.

FIGURE 2.4E: OVERVIEW OF GOVERNANCE STRUCTURE



Source: Department of Innovation, Industry and Regional Development.

The Project Coordination Group (PCG) comprises representatives of the Departments of Premier and Cabinet, Treasury and Finance, Infrastructure, and Innovation, Industry and Regional Development. It oversees the project, helps overcome barriers to it and advises Cabinet's Economic Development and Infrastructure Delivery Committee about the project.

A project steering committee originally oversaw the revision of the project plan and was disbanded after the government made its funding decision. It was replaced in January 2003 by the PCG and the expert advisory committees.

The project's Risk Management Committee meets regularly to review the current risks and identify any new risks. The project team and delivery team have separate management plans for all risks identified. The committee monitors these plans to ensure that all the risks are managed. The project team, delivery team and the Departments of Premier and Cabinet and Treasury and Finance are represented on the committee.

The Department of Treasury and Finance's Gateway Review Process is a methodology and process to review high- and medium-risk projects at 6 key stages of a project's lifecycle. Reviews are short, structured and conducted by expert teams independent of the project. Gateway reviews of the project found the procurement and tendering processes to be fair, timely and appropriate.

The operational governance structure of the Australian Synchrotron has yet to be established. The project team is currently investigating operational governance structures used in other synchrotrons around the world.

The delivery and project teams are advised by 4 expert advisory committees. These committees comprise scientific and technical experts from around the world. Most of these people were or are still involved in the design and management of other synchrotrons. These committees assisted by advising on satisfying user needs, selecting beamlines, and designing and installing the core facility. They have also advised about global trends in synchrotron science and governance arrangements.

We found that the project has been well managed by a professional and skilled team.

The project is also based on a comprehensive and thought-through business case supported by expert advice and information.

The delivery and project teams regularly report to key stakeholders, including the Secretary of the Department of Innovation, Industry and Regional Development (DIIRD), the Minister for Innovation and the Project Coordination Group. Both teams have used the advice provided by experts at critical stages of the project.

The Risk Management Committee appears to be effectively identifying and managing key risks.

Conclusions

The project's governance structure is robust as evidenced by clear roles and responsibilities, and regular monitoring.

However, the current structure will not serve for operations because it does not provide a direct involvement in the governance of the facility by other expected funding providers or facility owners. The operational governance structure of the synchrotron will need to be established before construction is completed, which will consider the rights of, and obligations to, any new funding partners. Synchrotron users are expected to be the key stakeholders due to their involvement in the development of the project and because they will share in the capital and operating costs.

Recommendation

10. **The development of the operational governance structure for the synchrotron should consider the rights and obligations of future stakeholders (that is, funding partners other than the state) to ensure the effective management of the facility.**

RESPONSE provided by Secretary, Department of Innovation, Industry and Regional Development

Consistent with the audit recommendation, significant progress has been made on the development of draft governance and access proposals for the operations phase, commencing in 2007. Extensive consultation with international advisers and the full range of national stakeholders on governance and access issues will continue during 2004.

2.4.6 Were risks adequately managed?

The project faces both financial and delivery risks. In assessing whether financial risks were being adequately managed, we examined if:

- measures to manage, mitigate and monitor risks of funding shortfalls were adequate
- financial commitments and contingencies were provided for and monitored by the state
- all costs and revenues for constructing and operating the synchrotron were realistically estimated and are regularly reviewed.

In assessing whether delivery risks were being adequately managed, we examined if:

- there are adequate measures to manage and monitor construction quality, timeliness and user requirements
- quality was not compromised by pressures to complete work on time.

Financial risks

A financial risk for the project is if funding partners cannot be secured to pay for the construction by 2005 and the operation of the beamlines by 2007. The required capital funding to be secured is $49.1 million.

Since mid-2002, the state has consulted with potential users to cover the costs of constructing of beamlines and operating the facility. At the date of preparing this report, $15 million was committed to constructing beamlines by Melbourne University, Monash University and the CSIRO. The project team was also negotiating with other organisations to ensure that the remaining $34.1 million required to construct the beamlines is obtained.

The National Scientific Advisory Committee to the Australian Synchrotron Project expects beamline funding to be finalised by December 2004. This will enable the beamlines to be designed and construction commenced.

Funding to cover the synchrotron's operating costs is currently being sought from potential stakeholders for operations to start in March 2007. Inability to achieve adequate recurrent funding of initially $16.3 million has been identified by the project team as a high risk to be managed, but it is too early to determine whether this risk will eventuate. Among the many factors affecting this is that once operational, the synchrotron will become a national project. Funding might then come from the Commonwealth Government, other state and territory governments and universities.

A further financial risk is that the project team may have not correctly estimated the project's construction and operating costs. Forecasted operating costs and the anticipated operating model are supported by independent expert advice based on international experience.

However, the project and delivery teams continuously exchange cost information to monitor costs, commitments and contingencies, to minimise the risk of costs overruns. To date, there have been no major construction cost overruns.

Both the project and delivery teams have risk management programs to identify, prioritise and minimise delivery and funding risks.

Delivery risks

The main delivery risk associated with the synchrotron project is failing to satisfy user requirements and the wider external stakeholder expectations, consequently leading to withdrawal of support.

The project and delivery teams aimed to meet user needs by liaising with the expert advisory committees (National Scientific Advisory Committee, International Machine Advisory Committee and International Scientific Advisory Committee). The International Machine Advisory Committee worked closely with the delivery team to design the core facility, and help review tenders for the design.

A set of project performance acceptance criteria has been developed in consultation with users and expert advisory committees for each of the main components of the core facility. Contractors must demonstrate that their products meet the criteria. This includes factory acceptance testing programs to guarantee quality.

In January 2003, workshops for potential users were held to determine the size of the local user community, and the quality and extent of their science and technology expertise. The project's strategy is to consult the user community on a regular basis.

The National Science Case for the Initial Suite of Beamlines was prepared in December 2003. The report suggests that 9 initial beamlines should meet 95 per cent of Australia's anticipated needs for the first few years.

Conclusion

To date, the key financial risks have been adequately managed. It is too early to determine whether there will be a funding shortfall for the costs of either the construction of beamlines or the operation of the synchrotron facility. There is the risk that the state would be required to meet any funding shortfall. However, the project team's plans to raise funds to meet both costs are adequate. The team has been effective to date in identifying possible funding partners and securing commitments from some of them.

Delivery risks have also been identified and well managed to date. Extensive national and international consultations have been held with scientists and other stakeholders, which reflects the importance attached to satisfying current and future user needs.

RESPONSE provided by Secretary, Department of Innovation, Industry and Regional Development

The present comprehensive risk management framework covering all aspects of the project will be a key factor in managing the project to completion.

Beamline funding is being led by the Australian Synchrotron's National Scientific Advisory Committee comprising eminent scientists drawn from most Australian states. After discussions with a wide range of prospective stakeholders, the department is confident that funding for the initial beamlines will be completed within the planned time frame. To date, the University of Melbourne, Monash University and the CSIRO have each contributed $5 million towards the funding of the initial suite of beamlines.

Detailed negotiations on operating costs will be finalised after beamline funding is completed. Positive initial discussions have been held with a number of funding agencies.

2.5 Was the Police Station Capital Works Program effectively managed?

2.5.1 Audit conclusion

The Police Station Capital Works Program has been generally well planned and managed. Work has been on time, on budget and is contributing to a range of government policy objectives. Police and communities were involved in project planning. Program management arrangements were adequate, and program reports were detailed and regularly available. However, the budgets used in some reports were inadequate for monitoring project progress accurately.

The transfer by Victoria Police of budgets between projects was ad hoc, not planned and not formally communicated to the Department of Treasury and Finance. Victoria Police needed to advise that department of budget reallocations to assist in its oversight of the capital works program.

Victoria Police should evaluate the program, as soon as possible, to determine whether its objectives (including ensuring best use of resources) are being achieved.

RESPONSE provided by Chief Commissioner of Police

Internal reporting requirements established by the Department of Justice require projects to be measured against the budgets and time-lines originally agreed to by the Expenditure Review Committee. As a consequence, project progress is reported against the original budget.

It is accepted that project progress should also be reported against the revised project cost. Victoria Police will revise its internal reporting structures to reflect project progress against both the original and revised project budgets, as applicable.

On previous occasions, Victoria Police has formally communicated budget transfers between projects to the Department of Justice, but has been advised that the Department of Treasury and Finance did not require formal advice of such transfers as they were budgeting at a global level. This matter will again be raised with the Justice Portfolio Capital Infrastructure Steering Committee to determine a suitable process to inform the Department of Treasury and Finance of budget transfers between projects.

The Victoria Police's Strategic Facilities Development Plan was completed in 2000. The document will be reviewed during 2004 to ensure alignment with the objectives specified in Victoria Police's The Way Ahead – Strategic Plan 2003-2008, *and with prevailing government policy and environmental data.*

Victoria Police has incorporated into the relevant consultant briefs the requirement for post-occupancy evaluations to be undertaken at new facilities approximately 6 months after the facility becomes operational. The findings of these assessments will assist in determining from the end user the effectiveness of the new facilities in improving operational performance and service delivery to the community.

2.5.2 Background

There are 328 police stations in Victoria, of which 312 are owned and 16 leased by Victoria Police. Victoria Police is responsible for constructing and maintaining the stations it owns, and residences where stations have them.

Victoria Police's "Police Station Capital Works Program" aims to build, replace or upgrade 135 police stations over 6 years, for an estimated budget of $279 million. The program aimed to build or upgrade 67 police stations from 1999-2000 to 2002-03, and a further 68 stations from 2003–04 to 2006-07.

The program also supports other government policies such as enhancing local businesses and employment, co-locating police stations with other emergency service facilities, and locating police stations in activity centres under the Melbourne 2030 strategy.

We conducted an audit to assess how well the program was managed.

2.5.3 Was the program well planned?

To assess whether the Police Station Capital Works Program was well planned, we examined if:

- there was an overarching plan to develop Victoria Police facilities, and a plan for this program
- the program plan was consistent with government policy
- Victoria Police adequately coordinated preparation of the program plan with relevant external agencies
- police officers and communities were involved in planning.

Priorities for replacing or upgrading police stations are set out by the Victoria Police *Strategic Facility Development Plan 2001 to 2005-06*. This plan is based on detailed research covering government policy commitments, demographic factors, community safety indicators, local priorities and the suitability and condition of existing facilities.

The Department of Justice's *Multi-Year Strategy 2004-05 to 2013-14* is informed by the strategic facility development plan. It identifies the stations planned to be built, replaced or upgraded, and when works are scheduled to be undertaken.

The Police Station Capital Works Program is mostly consistent with the strategic facility development plan. However, some recommendations of the plan were not accepted due to changes in government policy. They were to:

- close 4 small police stations on the Bellarine Peninsula and relocate staff to the new Ocean Grove 24-hour police station
- close the Olinda police station (it will be rebuilt instead).

Victoria Police worked with the Department of Sustainability and Environment to ensure that the program was consistent with the Melbourne 2030 strategy, the Transit Cities[6] Strategy, the Victorian Industry Participation Program[7] and the environmental sustainability development policy.

It is government policy to co-locate public facilities. To locate new police stations with existing or planned fire stations, ambulance stations and other emergency services, Victoria Police coordinated the program with the Department of Justice, Department of Infrastructure, local government and councils, the Victorian Government Properties Group, Department of Treasury and Finance and the Department of Sustainability and Environment. Victoria Police also worked with the Department of Justice to co-locate the new police stations with existing and planned courthouses.

Victoria Police members were involved in planning new, rebuilt and upgraded police stations.

For new sites, Victoria Police consulted with its operations staff and local government councils.

Victoria Police's planning process requires feasibility studies to be done before seeking funding approval from the government. Accordingly, approval for funding is only sought once projects are scoped.

This year, Victoria Police will start using the Department of Treasury and Finance's *Gateway* review process. This will allow independent assessments to be undertaken of key aspects of selected projects, including the planning methodology, business case development and contractor engagement. It is planned to use the results from these reviews to improve the future management of all capital projects across the program.

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[6] The government's Transit Cities Strategy is a joint transport and land-use initiative to create higher-density development around public transport nodes in locations across Victoria.

[7] The Victorian Industry Participation Policy (VIPP) was developed by the government to ensure that procurement and industry assistance activities across government use local suppliers whenever and wherever they offer the best value-for-money. VIPP applies to projects valued at over $3 million in the metropolitan area and over $1 million in regional Victoria.

Where shortfalls arise in the budgets for individual projects, Victoria Police either transfers funds from other projects within the broader capital works program that are under budget, or, if there are no funds available that way, via additional parliamentary appropriations[8]. For example, Boroondara Police Station was originally estimated to cost $8.2 million. The revised estimate was $6.2 million. $1.71 million of this was reallocated to Camberwell Police Station, and $230 000 to Richmond. These 2 reallocations completely addressed shortfalls in the Camberwell and Richmond police stations.

Conclusions

Victoria Police's planning process included extensive research and the program had clear priorities and strategies. The process involved police members and identified their needs.

The adoption by Victoria Police of the *Gateway* review process during this year should help further improve project planning and business case development for future capital projects.

The transfer by Victoria Police of underspent budgets to other projects is ad hoc, not planned and not formally communicated to the Department of Treasury and Finance. These reallocations should be advised to that department to assist with its strategic oversight of the capital works program.

> ***RESPONSE provided by Chief Commissioner of Police***
>
> *Partially disagree. Refer to earlier comments provided under "audit conclusion".*

2.5.4 Was program management effective?

In assessing whether program management was effective, we examined if:

- there were clearly defined program management arrangements
- Victoria Police project directors were accountable for project outcomes, and that there was a system to measure and manage the performance of project directors
- program reports were documented
- project directors and managers were consulted about high-level decisions.

Victoria Police officers act as project directors for groups of projects. Project directors were generally responsible for all phases of project implementation from site acquisition to police station construction, and for project costs and timelines.

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[8] The additional appropriations are available under the authority of section 29 of the *Financial Management Act* 1994, with approval from the Minister and the Treasurer, linked to the proceeds received from the sale of surplus property.

Victoria Police employs consultants as project managers for individual projects. The roles and responsibilities of all project directors and managers were clearly defined and documented.

Victoria Police appointed a project control group for each individual project. Groups were chaired by a Victoria Police regional assistant commissioner or a senior representative of the corporate services group of Victoria Police, and included the project director and the relevant project managers. Project control groups met monthly during the site acquisition and the design and documentation phases of projects, then less often during the construction phase. The groups discussed issues raised in project progress reports, and documented reasons for project delays or overspending.

In addition, user groups were established for all projects and involved representatives of the relevant police operational groups.

Victoria Police participated every 6 weeks on the Department of Justice's Portfolio Capital Infrastructure Steering Committee, to review the progress of projects. The Portfolio Infrastructure Development Group from the Department of Justice provided detailed monthly project status reports to the steering committee members.

Project directors and managers were adequately consulted about high-level decisions, such as changes in government policy decisions that influence whether police stations will be closed, replaced or upgraded.

Conclusions

Program management arrangements were adequate. Program reports were detailed and regularly available for monitoring purposes.

2.5.5 Were projects well managed?

In examining whether projects were well managed, we examined if:

- projects were completed on time and within budget
- tender processes were adequately managed to minimise probity risks
- project directors had adequate information about the progress of projects
- completed projects were evaluated.

At the end of 2003, Victoria Police had completed work on 53 stations, generally on time. The cost of building the 53 stations was $103.9 million, compared with the $106.1 million budgeted for these stations.

Victoria Police's project time benchmarks are 12 months for land acquisition, 8-9 months for design and documentation (including tenders), 15 months for construction and 12 months for a post-occupancy defects liability period. In the construction phase, there is a further 8-week benchmark for project overruns.

At the end of 2003, 25 projects were underway. Of these, 9 were on time, 11 were delayed by less than 8 weeks and 5 were delayed for longer than 8 weeks. Delays longer than 8 weeks were generally due to contractors' internal problems and the need to respecify projects where tender bids were higher than expected. Delays of less than 8 weeks were mainly due to problems acquiring land and minor changes in project scope.

While sites were acquired on time for most projects, delays in acquiring land are the greatest cause of program delays. Delays in acquiring sites were caused by cost increases arising from the time sites were identified and project budgets were approved; by ex-government land needing to be decontaminated; by a native title claim; by asbestos removal; by problems locating suitable sites to satisfy Melbourne 2030 strategy requirements; by appeals to the Victorian Civil and Administrative Tribunal; by buildings being heritage-protected; and by the need to compulsorily acquire land.

Delays in the design and documentation, and construction phases, of projects were mainly caused by changes in project scope. There were very few delays in these phases.

Victoria Police uses the Department of Infrastructure's Construction Supplier Register to shortlist construction tenderers and consultants. All enterprises on this list have been assessed for financial viability, for the quality of their work and their ability to deliver on schedule. To date, only 2 of the hundreds of businesses selected from the register have failed to deliver services due to financial difficulties.

Victoria Police complies with ministerial directions issued under the *Project Development and Construction Management Act 1994* for construction projects valued at over $10 million where a probity plan must be developed and audited. Probity auditor reports are available to the public on request.

The project managers and project directors jointly shortlist tenderers for construction, with the short-lists then endorsed by the relevant project control groups.

The project managers and project architects in consultation with the quantity surveyors evaluated tenders for construction. The resulting evaluation report recommendations were submitted by the project directors to the department's accredited purchasing unit and the relevant project control group for endorsement. They were then approved by the appropriate delegate.

Certain monthly project status reports used in the oversight of project and program status list the total project budgets approved by the government, rather than the Victoria Police budget which is revised to take account of project realities. Working with budgets which were already acknowledged by Victoria Police to be inaccurate reduces the usefulness of these reports as effective project management tools.

Victoria Police evaluates whether projects were completed on time and on budget, but does not evaluate whether broader program objectives, including best use of resources, are achieved.

Conclusions

At the end of 2003, all projects had been delivered on time, and at less total cost than the budget for these stations.

Victoria Police's use of the Construction Supply Register reduced the risk of contractors being over time, over budget or their work being substandard. While there were some delays in acquiring land, these were generally outside the control of Victoria Police.

The budgets used in certain monthly project status reports are inadequate for accurately monitoring project progress. Progress against revised project costs should be reported, rather than progress against the original approved project cost estimates.

Recommendation

11. That Victoria Police evaluates the Police Station Capital Works Program, as soon as possible, to determine whether program objectives are being achieved.

RESPONSE provided by Chief Commissioner of Police

Partially disagree with the conclusion (refer to comments provided earlier under "audit conclusion"). Recommendation agreed.

2.6 How well has the Prison Bed Expansion program been managed?

2.6.1 Audit conclusion

Redevelopment and construction of prisons are complex undertakings with challenges not usually faced by infrastructure projects. Prisons are complicated buildings to design and must balance prisoner rehabilitation needs with the need for a safe and secure environment. Considerable time is involved in identifying sites and obtaining planning approvals, works must be undertaken without compromise to prison operations and security, and community sensitivities about having a prison located nearby also need to be managed.

The department's prison bed expansion program is a substantial undertaking. In the first stage, the Department commissioned 930 temporary beds in existing prisons (bunk beds and relocatable cells). In the second stage, it aims to achieve an additional 1 073 permanent beds by June 2005 (after the closure of 3 outdated prisons).

At March 2004, an additional 495 temporary and permanent prison beds[9] had been completed within a budget of $60 million.

The department will not achieve its permanent prison bed target by June 2005 but compensated for this by the introduction of temporary beds into the prison system in response to demand pressures and overcrowding in police cells. The removal from prisons of around 630 temporary bunk beds will be delayed until the permanent infrastructure is complete.

Timelines for the completion of the new remand centre were extended and continuing sound management is required by the department to ensure that it is completed on time.

The development of community transition units is around three years behind schedule. More pro-active management by the department in identifying sites for the units may have reduced the delays.

While there have been issues with the Department of Justice's management of two earlier prison bed expansion projects, the department took appropriate action in late 2002 to strengthen its management of infrastructure projects.

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[9] An additional 102 permanent beds have been completed and funded by the 2 private prison operators.

2.6.2 Background

The Department of Justice's prison bed expansion program is part of the Corrections Long Term Management Strategy, which also includes diversion programs and initiatives to reduce re-offending and respond to the growth in prisoner numbers. The program was established in 2000-01, to provide the prison system with extra capacity to ensure the "humane containment[10]" of Victoria's growing number of prisoners. At August 2000, more than 330 prisoners were held in police cells and most of these prisoners were held in the cells for over 10 days.

The program will increase the number of prisons beds in *existing* prisons (both temporary cells in relocatable buildings and permanent prison cells) and will build 3 new prisons: a Remand Centre, a Correctional Programs Centre and a new low security prison at Beechworth. Three outdated prisons will also be closed and temporary accommodation (including bunk beds and some relocatable cells) will be withdrawn from use as the permanent beds are built.

The program comprises 17 separate projects (temporary and permanent beds) with a total capital cost of $242 million. The program will provide an extra 1 073 permanent prison beds by June 2005. Figure 2.6A shows the program's components.

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[10] Minister for Corrections, *Correctional Services Long Term Management Strategy and Immediate Funding Initiatives*, October 2000, p.6.

FIGURE 2.6A: COMPONENTS OF PRISON BED EXPANSION PROGRAM

Expansion program components	Bed	Budget	Actual cost At 31 January 2004
	(no.)	($m)	($m)
Temporary beds (relocatables)			
Dame Phyllis Frost Centre	50	4.6	3.7
Ararat Prison	50	4.7	4.3
Fulham Correctional Centre	50	4.7	4.2
Dhurringile Prison	50	4.7	5.5
Barwon Prison	50	4.7	5.5
Barwon Prison	50	4.7	4.8
Total	**300**	**28.1**	**28.0**
Permanent beds			
Dame Phyllis Frost Centre	50	10.8	11.0
Barwon Prison	75	11.9	11.9
Loddon Prison	70	9.2	9.0
Port Phillip Prison (a)	34	-	-
Fulham Correctional Centre (a)	68	-	-
Sub total	**297**	**31.9**	**31.9**
Community transition units (b)	**60**	**13.5**	**4.8**
Prisons redevelopment			
Ararat Prison	26	8.9	3.7
Langi Kal Kal Prison (refurbishment)	-	3.4	3.1
Sub total	**26**	**12.3**	**6.8**
New prisons			
Programs prison	300	(c) 135.9	2.5
Remand centre	600		7.2
Beechworth Prison	120	20.3	6.4
Sub total	**1 020**	**156.2**	**16.1**
Total	(d) **1 403**	**213.9**	**59.6**

Legend: Projects completed at March 2004.

(a) Program cost excludes the construction of 102 permanent beds funded by private prison operators (Port Phillip Prison and Fulham Correctional Centre).

(b) Community transition units are community-based correctional facilities that offer prisoners nearing the end of their sentence, a structured program of employment, accommodation and life-skill support and training. The department is to construct the units on 2 sites.

(c) The amount of $135.9m was allocated as a capital budget for the construction of the 300- and 600-bed centres. These projects are now Partnerships Victoria projects and a contract has been let providing for a recurrent stream of funding.

(d) The department's target of 1 073 net permanent beds includes the decommissioning of 3 prisons: Beechworth Prison, 123 beds; Won Wron Prison, 127 beds; and Bendigo Prison, 80 beds.

Source: Department of Justice Correctional Infrastructure Program, Expenditure Report as at 31 January 2004.

We reviewed in detail, 3 of the 17 projects:

- 50-bed relocatable unit at the Dame Phyllis Frost Centre, completed August 2001
- 75-bed permanent accommodation unit at the Barwon Prison, completed March 2003
- development of the Community Transition Units, due to be completed in September 2005.

A high-level overview of the department's progress to date in building the 2 new prisons, was also undertaken.

2.6.3 Have project budgets and timelines been achieved to date?

Project management is the planning, control and coordination of a project from start to finish to meet a client's requirements on time, within budget and to the required quality.

Redevelopment and construction of prisons are complex undertakings with challenges not usually faced by infrastructure projects. For example, prisons are complicated buildings to design and must balance prisoner rehabilitation needs with the need for a safe and secure environment. Considerable time is involved in identifying sites and obtaining planning approvals, works must be undertaken without compromise to prison operations and security, and community sensitivities about having a prison located nearby also need to be managed.

New prison beds need to comply with cell safety standards developed by the department in 2001. The standards seek to minimise the risk to prisoners of fire and self-harm (removal of hanging points)[11].

In assessing whether project budgets and timelines were achieved to date, we examined if the department's project management and monitoring practices enabled infrastructure projects to be completed on time and on budget.

By March 2004, all of the program's 17 projects had started and 11 were finished. The remaining 6 projects were at various stages of completion.

While budgets for individual projects were increased or decreased (in response to each project's changing circumstances), the total (495) beds completed to date were completed within budget:

- 300 temporary beds, budgeted at $28.1 million, were completed for $28 million
- 195 permanent beds, budgeted at $31.9 million, were completed for $31.9 million[12].

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[11] The need for cell safety standards arose from a Coronial Inquiry in 1999 into 5 deaths at the Port Phillip Prison.

[12] An additional 102 permanent beds were completed and funded by the 2 private prison operators.

The 2 completed projects reviewed in detail were the first of their kind built by the department. The contractors' costs for the Dame Phyllis Frost Centre 50-bed relocatable unit and Barwon Prison 75 permanent beds were 16.4 per cent ($549 326) and 13.8 per cent ($1.35 million) over the original contract sum. The main reasons for the variations were departmental changes to the design of the facilities (both the scope of works and to reduce the risk to prisoners of fire and self-harm), and unforseen works due to sites not adequately inspected and requirements documented, before the works started.

Of the 11 completed projects, 10 did not meet their initial project timelines:

- six projects were completed up to 6 months late
- the remaining 4 projects needed time extensions of 8-17 months.

Some extensions of time were due to issues outside the department's control, for example, poor weather and industrial action. Other issues within the department's control, such as contract negotiations with private prison operators, unrealistic initial timelines and designing the new prison cells (to reduce the risk to prisoners of fire and self-harm), added considerable time to the projects.

In one project, the department asked the contractor to "fast-track" construction[13] to achieve revised project timelines. This resulted in additional costs of $185 000.

For the 2 projects reviewed in detail, the relocatable unit at the Dame Phyllis Frost Centre was completed on time and construction of the 75 beds at Barwon Prison, was 6 months late.

Conclusion

The projects reviewed were the first of their kind (i.e. relocatable cells and additional permanent infrastructure) to be undertaken by the department. The high level of variations reflects the projects' developmental nature.

There were issues with the department's management of the 2 early projects completed during 2001-02. In late 2002, the department took strong action to improve its project management by setting up a specialist unit to manage and deliver its infrastructure programs. Improved quality assurance and governance systems were also implemented which should ensure control over the number of project variations.

Revised program budgets and timelines have been achieved.

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[13] Construction can be fast-tracked by using multiple teams of tradespeople to complete a specific task.

2.6.4 Will the permanent bed target be achieved?

We examined whether the department took appropriate action to ensure the achievement of the permanent bed target of an additional 1 073 beds by June 2005.

At March 2004, an additional 297 permanent prison beds were provided (including 102 permanent beds funded by private sector prison operators). Completion dates for 2 key projects (60 beds in community transition units and the new 600-bed remand centre) are extended to September 2005 and October 2005, respectively.

The concept of community transition units (CTUs) is new to Victoria. CTUs are community-based correctional facilities that offer prisoners nearing the end of their sentence a structured program of employment, accommodation and life-skill support and training. At March 2004, a potential site had been identified for one unit and the department was searching for the final site. Delays in completing the CTU development were primarily due to community sensitivity in identifying sites for the units.

The development of CTUs is currently 3 years behind the original timelines. This was partly due to optimistic initial timelines. Funding was approved in 2001 without sites being identified and the units were to be completed in October 2002

Other issues contributing to the delay in CTU development included:

- difficulties in identifying suitable CTU sites. A site was identified by consultants in October 2001 as the "most preferred option[14]" however, it was tenanted and not immediately available for use as a CTU. The department has since considered a further 30 sites, but at the date of audit, approval for the development of the CTUs is still pending
- the lack of a dedicated project manager. Specialist capability in the management and delivery of CTUs was not established within the department until late in 2002
- a project delivery framework aimed at "resolving critical issues and successfully implementing the CTU project[15] " was not implemented until January 2003.

[14] Facility Identification and Acquisition Advice, Macro Plan Australia, October 2001, pp. iii and 53.

[15] Project Control Plan, Community Transition Units, Corrections Victoria, 30 January 2003.

In December 2003, the state entered into a 25-year agreement with a consortium for the design, construction, finance and maintenance of both the 300- and 600-bed prisons. The completion date for the 300-bed programs prison is June 2005 and completion of the 600-bed prisoner remand centre was put forward by 10 months to October 2005. This was due in part to a change in the procurement method for the 2 prisons. Initially, the 2 new prisons were funded as part of the department's capital works program. Consideration was then given to the adoption of the Government's Partnerships Victoria (PV) model[16]. The PV model for prisons required consideration of numerous issues, including assessing: the feasibility of adopting the PV approach; value for money from private sector involvement; how public interest criteria will be addressed (issues of access, equity, accountability, transparency etc.) and consideration of options for structuring the prisons project.

Extra time in selecting the site for the prison and ensuring the prison design met operational needs, further extended the prison's completion date.

Delays in the construction of the new remand centre will result in:

- continued use of around 630 temporary bunk beds in existing prisons and remand centres
- the need to continue operating 2 prisons which are to close, due to their inadequate size, location and outdated facilities.

Conclusion

Based on the department's project completion dates, the target of 1 073 permanent beds by June 2005 will not be achieved. The department will manage this by retaining temporary beds in the system longer than originally planned so that sufficient prison bed capacity is maintained.

The CTU project was not managed well by the department. Delays in identifying a site have caused the project to stagnate and sound project processes were not implemented in a timely manner. The department's delay in developing a project delivery framework and identifying a site has resulted in the CTU project running well behind schedule.

Although timelines for the completion of the new remand prison were extended, continuing sound management will be required by the department to ensure its timely completion.

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[16] Partnerships Victoria (PV) is the government's policy framework for private sector investment in public infrastructure.

2.6.5 Has the department complied with government procurement policies?

In assessing whether the department had complied with government procurement policies when engaging consultants and contractors and administering contracts, the following key directions were examined[17]:

- Code of Practice for the Building and Construction Industry, 1994
- Ministerial Direction No. 1: Tendering Provisions for Public Construction
- Ministerial Direction No. 2: Contractual Provisions for Public Construction.

To ensure that departments comply with government policies, a probity auditor oversees tendering processes for infrastructure projects worth more than $10 million.

Issues associated with consultant/contractor engagement in the 2 projects (total project cost of $15.6 million) reviewed by both audit and the probity auditor, included:

- around $80 000 of project management services were awarded without tender. Ministerial Direction No. 1 requires agencies to seek proposals from at least 3 pre-qualified consultants or conduct a public tender process, where consultancy services are expected to exceed $15 000
- the selection report which outlines the results of the evaluation of tenders was not signed by all evaluation panel members
- addenda to tender information were issued too close to the tender closing date (probity auditor)
- there was no reference to the need to comply with the Code of Practice in the tender and contractual documentation
- two contracts were not finalised until the projects were almost completed.

Conclusion

Government procurement policies were not fully complied with. The department has since implemented improved quality assurance and management systems to assist the delivery of its infrastructure projects.

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[17] Code of Practices and Ministerial Directions issued pursuant to the *Project Development and Construction Management Act 1994*.

RESPONSE provided by the Secretary, Department of Justice

This audit examined the implementation of components of the Victorian Prison Infrastructure Masterplan, a part of the Corrections Long Term Management Strategy. The Strategy is a co-ordinated action framework for responding to continuing demand growth in the prison system. Strategies have been developed to reduce demand through diversion programs and reducing re-offending. These have been balanced by a major redevelopment of Victoria's prison infrastructure that includes capital upgrades and expansion - both short term (responding to immediate pressures, particularly in police cells) and to the medium term.

The Infrastructure Masterplan provides $292 million, the greatest investment in the expansion and upgrading of prison infrastructure in Victoria's history. $242 million is to provide a net increase of 1073 permanent new beds by 2005, while short-term demand has been addressed through the provision of over 900 flexible beds. The capital upgrades and expansion includes the building of three new prisons (a 600-bed maximum security Remand Centre, a 300-bed medium security Correctional Programs Centre, and a new minimum security open prison at Beechworth) and the closure of three existing prisons (Beechworth, Bendigo, and Won Wron Prisons). A further $50 million provides for improved cell and fire safety across existing prisons.

The Department of Justice welcomes Audit's conclusions affirming the complexity of the redevelopment and construction of prisons, and that delays have been experienced in the program to properly allow for the impact of variation to procurement (under the Government's Partnership's Victoria *model), for site selection, ensuring that prison designs meet operational needs, and ensuring compliance with cell safety standards developed by the Department in 2001.*

The Department of Justice also welcomes Audit's conclusion that the additional capacity that has been delivered to date has been successfully completed within the allocated cost budget of $60 million.

The Department notes that, while Audit has identified some issues with the Department's early management of this program, it finds that in 2002 the Department took strong action to improve its project management by setting up a specialist unit to manage and deliver its infrastructure programs, and that the Department implemented improved quality assurance and governance systems.

The Audit concludes that the initial target for delivery of 1,073 permanent beds by June 2005 will not be achieved, due to revised timelines for the new Remand Prison and for community transitional units. The Department notes that these revisions to timelines will result in no additional cost to Government, and will have limited operational impact upon the prison system due to the planned availability of contingent capacity through demountable accommodation units and flexible beds, and due to the early impact of diversion and rehabilitation initiatives in reducing prison demand.

The Department of Justice accepts that there have been delays in the development of 60 beds in community transition units, and that its initial timelines were optimistic. These are complex new initiatives which have never before been attempted in Victoria, and with associated community sensitivities. However, the Department notes that these delays have negligible overall impact upon prison capacity. While providing a minor increase in prison capacity, the CTU's also form one element within the major program of initiatives to reduce-re-offending. This program encompasses the correctional rehabilitation framework, offending behaviour programs and improving the transition of over 5,000 prisoners back to the Victorian community from prison each year. In this context, the delay in the CTU development is of limited significance.

2.7 Has the Mobile Data Network Project been well managed to date?

2.7.1 Audit conclusion

The Mobile Data Network project has been complex and challenging, and the proposed network will be unique.

The Department of Justice expects that the network will result in operational efficiencies, improvements to staff safety, additional fine revenue, cost savings and productivity gains for Victoria Police and the Metropolitan Ambulance Service.

The project's governance and project management, and user involvement, have been satisfactory, given the complexity of the project. In particular, project governance was strengthened through the operation of a steering committee comprising senior representatives of key stakeholders.

However, the 1998 business case upon which funding was approved for the project was not based on a good-enough understanding of available mobile data services and their costs. Subsequent major revisions in project scope and estimated costs show that subsequent business cases were also deficient.

We acknowledge that the small number of suppliers of such networks, and the small number of equivalent networks in operation, made the preparation of accurate business cases (particularly cost estimates) difficult.

The department negotiated with a single tenderer for a significantly changed project scope over a 2-year period. It did so believing that the second bidder would not have complied with the tender selection criteria if given the opportunity to revise its bid on the basis of the changed project scope. As a result of the decision to deal with a single tenderer over a prolonged period, the preferred bidder received additional opportunities to significantly revise their proposal. This is contrary to good practice, and inconsistent with the Victorian Government policy on tendering, and it may have been more appropriate to have called for new tenders.

Further, the protracted negotiation period also made it more difficult for the department to establish that it would receive value-for-money and that the network would be reliable and the technology would also be the most up-to-date in the market.

The design of the network was running on time compared with the contracted timetable.

Looking forward, the project faces several risks, and these must be carefully managed by the department's Bureau of Emergency Services Telecommunications and by client agencies. Two of these risks are that agencies' change management strategies, and the performance management regimes, will not be effective. All affected agencies have already started to manage these risks.

2.7.2 About the Mobile Data Network

The Mobile Data Network is one of several major information technology projects under the Statewide Integrated Public Safety Communications Strategy. The others are a new mobile voice radio network and a statewide alerting system.

The network will provide work dispatch and other information from the Victoria Police, VicRoads and Sheriff's Office databases to members of Victoria Police and the Metropolitan Ambulance Service, while in their vehicles. Information will be transmitted via a data radio network covering the greater metropolitan Melbourne area to receivers and computers in the vehicles. The network will also allow for the tracking of the vehicles. Figure 2.7A shows a mock-up of the computer screen.

FIGURE 2.7A: EXAMPLE OF INBUILT VEHICLE COMPUTER

The network may be expanded to cover vehicles of the Country Fire Authority, Victorian State Emergency Service, Metropolitan Fire and Emergency Services Board and Rural Ambulance Victoria, as well as Department of Sustainability and Environment fire control vehicles.

Audit scope

Due to the significant cost in establishing and operating the network, and the level of public comment on the project, we decided to audit the management of the project.

At the time of the audit, network design was being completed. Therefore, the audit did not cover network implementation or operation. We plan to audit these aspects of the project in future.

The audit assessed the adequacy of the processes used by agencies to establish their user requirements, and to identify available technology that could meet those requirements. It did not verify the user requirements for the network.

The audit examined the activities of the Bureau of Emergency Services Telecommunications (the bureau), Victoria Police and the Metropolitan Ambulance Service.

2.7.3 Were the business cases adequate?

In assessing if the business cases for the project were adequate, we examined whether:

- they included project objectives, scope, estimated cost and benefits, implementation plans (including timelines) and risk management plans
- were supported by expert advice
- similar projects in other jurisdictions were identified and researched, and insights from these projects used for this project
- users were adequately consulted during preparation of the business case, and were also consulted before the business case was revised
- significant changes in user requirements (and therefore the project scope) were documented, and project objectives, costs, benefits and risk allocations were amended as necessary
- cost estimates were comprehensive, and kept up-to-date.

A business case for the project was first prepared in 1996, and amended in 1998 and again in 2001. The Ministerial Steering Committee for Emergency Services Telecommunications endorsed the project on the basis of the original business case in 1996. Funding for the project was provided on the basis of the amended business case in 1998.

The amended (1998) business case set out the project objectives, scope, estimated costs and benefits, and planned timetable. Agencies were involved in preparing it, as were external advisors.

User requirements and scope of the project

The Metropolitan Ambulance Service and Victoria Police formally endorsed the specified user requirements before the business case was approved in 1996, and at several later times, including before the request for proposal was approved, and before the contract was signed.

Victoria Police and the Metropolitan Ambulance Service formed representative groups of users who consulted with users more widely to develop the user requirements for the amended business case in 1998. These groups used external technical advisors. Workshops were also held with groups of users about their needs.

In late 2000, the bureau's chief executive officer visited public safety agencies (nominated by one of the shortlisted tenderers) which use mobile data networks. Four of these were in the United States of America, and one in Canada.

In early 2001, Victoria Police representatives visited New South Wales to review their police mobile data network. Later that year, and after a preferred respondent to the request for proposal had been selected, representatives of the Metropolitan Ambulance Service, Victoria Police and other emergency services reviewed networks run by public safety agencies in the United States of America and Canada. They looked at contractual, technical and operational issues. The report of this visit contributed to specifying later changes to user requirements.

Expressions of interest were called for in February 1999. Shortlisted respondents were invited to submit tenders in August 1999, which were received by June 2000. At this stage, it was realised that meeting the initial user requirements would cost significantly more than estimated in the amended 1998 business case. This led to significant changes in the approved project scope, cost estimate and expected benefits, after users and advisors had been consulted.

A new business case was prepared in 2001. This envisaged a staged roll-out of the network: Victoria Police and the Metropolitan Ambulance Service would join the network under the first phase of the roll-out, Stage 1. Other emergency services organisations could join the network in later stages, if this was supported by further business cases.

Changes in the scope included in the 2001 business case:

- reduced the number of Victoria Police vehicles to be included in the network from 1 540 to 1 100 (being 440 vehicles stationed outside the Melbourne metropolitan area)
- changed plans to install new network computer terminals in police stations to only installing the necessary software on existing computers

- excluded the Country Fire Authority, Victorian State Emergency Service and the Metropolitan Fire and Emergency Services Board from the network for the time being (although the contract allows for them to be included in future).

Further changes to the scope in 2002:

- again reduced the number of Victoria Police vehicles to carry network computers, from 1 100 to 700
- deferred the field reporting feature (the ability to electronically capture data at the source)
- provided access to the Sheriff's Office databases, which is expected to result in more fines being collected.

Other changes made included maximising the use of existing radio towers, using alternative computer software and changing how the network will be operated and maintained.

The government approved the project scope changes in 2001 and 2002.

Cost estimates

In 1998, the government approved $78 million over 5 years for the project based on the amended business case. The estimated cost at that time almost equalled the estimated quantifiable benefits.

The costings in the amended business case assumed that the network would use an existing mobile data service. This assumption was subsequently found to be incorrect, which was a major factor resulting in project costs being significantly underestimated.

During the life of the project, its scope has changed (for example, estimated message volumes decreased from 4.6 million in 1998 to 3.6 million in 2002) while cost estimates have increased. Major cost estimate revisions occurred in 2000 (an increase of some $77 million from 1998), 2001 (a reduction of some $22 million) and 2002 (an increase of some $38 million).

In October 2002, the government approved final funding for the project of $171 million, over 5 years. This budget allocation:

- covers capital and ongoing operating expenses for the network for the initial 5 year term of the contract, and for work on the computerised systems of Victoria Police, Metropolitan Ambulance Service, Sheriff's Office, Emergency Communications Victoria and VicRoads, and for training costs. Estimated costs for the work on these other systems are only preliminary, and will be refined during the (current) network design and implementation phase
- is subject to a number of risks, which are explained later under contract arrangements

- includes a very small contingency allowance of 2 per cent of the total estimated project cost.

Departmental budget estimates (including forward estimates) for the relevant public sector agencies provide for estimated network costs in the immediate and longer-term, consistent with the government-approved project funding. While the government envisages expanding the network to other agencies, the forward estimates do not yet provide for such expansion until approval is given for such expansion.

Estimated benefits

When the business case was amended in 1998, most of the benefits to be provided by the network (including additional fine revenue, productivity gains and cost reductions) had been quantified by the emergency services organisations or their consultants. The estimated quantifiable benefits ($76 million) at that time almost equalled the estimated costs ($78 million).

As the project scope changed, the value and type of quantifiable benefits changed significantly, and fell short of the revised cost estimates.

Between 1998 and October 2002, the estimated quantifiable benefits to the state increased from $76 million to $100 million. Major reasons for this change included:

- Victoria Police and the Metropolitan Ambulance Service significantly revised their expected productivity gains and cost savings
- the bureau, in consultation with the relevant agencies, increased its estimate of extra fine revenue from $30.1 million (arising from the increased detection of unlicensed drivers and unregistered vehicles) to $58.5 million (including increased collection of outstanding warrants) over the 5 years of the contract
- the bureau, in consultation with the relevant agencies, also estimated extra savings of $12.5 million from discontinuing registration labels for motor vehicles (given the network will make it more easier for police to verify vehicle registrations) over 5 years.

The bureau, in consultation with the relevant agencies, further estimated that local government would receive an extra $11.9 million of fine revenue over 5 years.

The bureau identified other (unquantified) operational efficiencies and staff safety benefits, including:

- less congestion on the existing voice radio system, over which messages must now be repeated
- quicker transmission of more detailed work dispatch information to mobile crews

- quicker reports by mobile crews about their activities
- quicker and more direct access to agency databases
- help for work dispatchers, by electronically tracking the location of vehicles
- an alternative route for public safety communications (for example; priority 1 and 2 police messages will be transmitted over both the existing voice radio system and the network)
- better performance management through improved operational statistics.

From the 1998 business case to now, the project scope (including user requirements) has reduced considerably, while cost estimates have greatly increased. The final project funding allocation ($171 million in 2002) greatly exceeded the final estimate of benefits to the state ($100 million). This estimate, however, does not include the unquantified benefits listed above.

Conclusion

The bureau expects that the network will provide significant benefits, including operational efficiencies, improvements to staff safety, additional fine revenue, cost savings and productivity gains.

Users were adequately involved at all stages of developing user requirements for the network. However, the overseas projects were only visited by representatives of the emergency services agencies after a preferred respondent to the request for proposal had been selected. If the overseas visits had happened much earlier in the process, affordable user requirements might have been defined much sooner than they were.

All the sites visited used different technological components, and (or) were on a different scale, to the proposed Victorian network. None were wholly outsourced or multi-agency, as Victoria’s network will be. However, useful information was gained, particularly from the second site visits which contributed to the review of user requirements.

Despite the involvement of external advisors, the significant increase in the estimated cost of the project in 2000 (after receipt of proposals) shows that the amended business case was not based on a good enough understanding of available mobile data services and their cost. The business case had incorrectly assumed that an existing mobile data service would be used.

The project initially proceeded on the basis that quantified benefits almost equalled estimated costs, then continued for several years while estimated costs were significantly greater than quantifiable benefits. The rationale for this was that other unquantified benefits would be delivered by the project.

Again, despite the involvement of external advisors, subsequent significant changes in project scope and estimated costs in 2001 and 2002 after the project was tendered show that business cases to 2001 were also deficient.

The small number of suppliers of such networks, and the small number of equivalent networks in operation, made the identification of the scope of the project and preparation of accurate business cases (particularly cost estimates) undoubtedly difficult. It is entirely appropriate to reassess the scope, costs and benefits of a project up to the point the project is publicly tendered (February 1999). However, if that reassessment continues beyond the tender stage and into an extended negotiation phase with the preferred supplier, it raises serious questions about the validity of the original business case which underpins the tender specifications.

We also acknowledge that this is a complex and challenging project. Based on the research of the emergency services agencies, a multi-agency network with over 1 000 mobile computers, operated by a private service provider and providing access to work dispatch information, vehicle location information and several databases, is a world first.

The government's new Gateway Review Process, introduced from July 2003, will give project managers better tools and processes to manage major projects. Use of this process in future projects should help ensure that major project decisions are based on the most comprehensive and sound processes.

Recommendations

12. **That key assumptions in business cases for future major information technology projects be independently checked to ensure they are reasonable.**

13. **Where significant and wide-ranging changes to project scope, costs and benefits occur after public tender, that new tenders should be called.**

2.7.4 Was the governance framework appropriate?

In assessing whether the project governance framework was appropriate, we examined if:

- the project had adequate implementation plans, a risk management plan, a steering committee, a project director, a project management team, a negotiation team and regular reporting requirements
- the steering committee drew on specialist expertise and met regularly
- roles and responsibilities were clearly defined
- key staff had the necessary skills, resources and continuity of engagement on the project

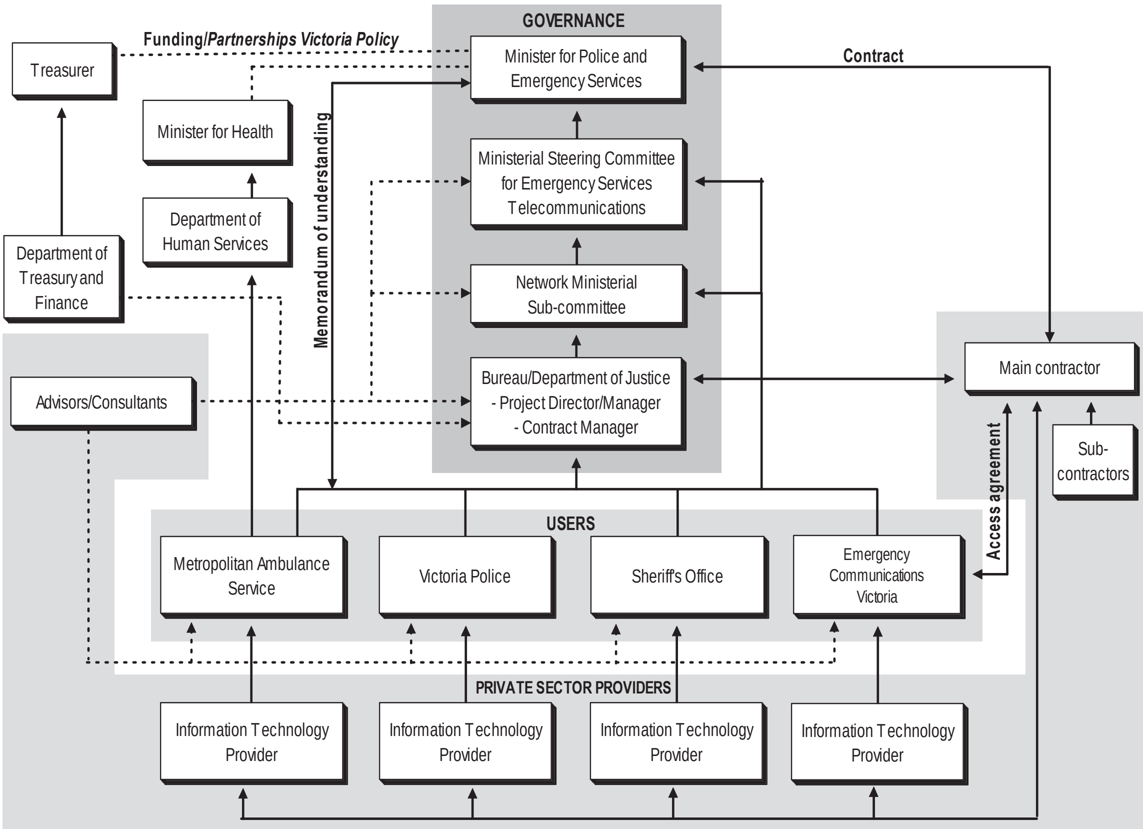
- project management was regularly reviewed by internal or external independent people.

The amended business case, prepared in 1998 and adopted by the Ministerial Steering Committee in that year, set out the project's scope, objectives, user requirements, team structure, key stakeholders, milestones and key risks.

A negotiation strategy was prepared in 2002. This addressed the composition of the negotiation team, and negotiation procedures and protocols.

The Country Fire Authority, Victorian State Emergency Service and the Metropolitan Fire and Emergency Services Board were part of the project in 1998 and withdrew in 2001. This reduced the project scope. Figure 2.7B shows the project's current governance and project management structure, including key participants in the network's implementation and operation. It shows that there are complex relationships between a large and diverse group of public sector entities and private companies.

FIGURE 2.7B: GOVERNANCE AND PROJECT MANAGEMENT STRUCTURE FOR THE NETWORK



Source: Victorian Auditor-General's Office.

In May 2002, a network subcommittee of the Ministerial Steering Committee for Emergency Services Telecommunications (known as the MDN subcommittee) was formed to provide high-level direction for the project and to monitor contract negotiations. The steering committee oversees a number of emergency services telecommunications projects, and the subcommittee allows it to look more closely at the Mobile Data Network Project.

The subcommittee comprises senior representatives of Victoria Police, Metropolitan Ambulance Service, Department of Treasury and Finance and the bureau. The subcommittee meets monthly and reports to the Ministerial Steering Committee.

The bureau's project management team reports regularly to the subcommittee, through the project director.

During the life of the project, the senior project staff have changed. However, in the last 3 years, membership of the project team has been stable. The project director (a contractor to the bureau) has extensive experience in telecommunication projects. All other project team members have been trained in PRINCE2, a project management methodology used by the UK Office of Government Commerce, which is being used for the project.

An experienced lead negotiator was engaged to lead the contract negotiation team, which included representatives of Victoria Police and the Metropolitan Ambulance Service. The lead negotiator was directly accountable to the subcommittee.

A risk register is maintained for the project, and the subcommittee monitors action by the project team to mitigate risks.

Conclusion

The strengths of the governance and project management arrangements include the high-level steering committee members supported by external consultants (including the project director and lead negotiator); its probity auditor; its regular reporting to the steering committee; and its well developed "lessons learnt" process.

Governance and project management would have been strengthened by regular independent reviews of the procurement process. This has not occurred. The bureau's internal auditor (or another similarly independent but suitably skilled expert) could carry out such reviews, which would look at the efficiency and effectiveness of the project's management, as part of a risk based approach to the review of the bureau's key activities. Independent reviews may have avoided or minimised the impact of some of the problems that have confronted this project, as set out in this report.

Recommendation

14. **That an internal auditor (or other similarly independent but suitably skilled expert) be engaged to audit the project's progress over its life. Its reports should provide independent assurance about the soundness of the project's management and implementation.**

2.7.5 Was the procurement process well executed?

In assessing whether the procurement process was well executed, we examined if:

- management of the procurement process was in line with good practice
- expert advice, or the results of any internal or external reviews, were acted on
- the project timetable was kept to
- the public sector comparator (which seeks to establish if the project offers value-for-money compared with a public sector model) was correctly applied
- a comprehensive report on the tendering process was prepared, which evidences that the process was fair, timely; and that this report was supported by an unqualified report from the probity auditor.

The procurement process began in February 1999 with the seeking of expressions of interest, and ended in June 2003 when a contract was signed.

There have been substantial delays in the execution of the project. Some reasons for the delays have been outside the control of the bureau, and include:

- higher than expected cost estimates from bidders, and the application of the public sector comparator (part of a new government policy), which resulted in several lengthy reviews and revisions of the project scope (including user requirements) and estimated cost
- the state election, during which the project was suspended for some 3 months in 1999
- the Metropolitan Ambulance Service Royal Commission, which tied up bureau and service resources
- the development of a cross-government approach to procuring and operating emergency service telecommunications, which delayed the project by at least 5 months
- creation in mid-2002 of Emergency Communications Victoria, a public sector agency to manage the state's outsourced computer-assisted dispatch arrangements
- the withdrawal of the network provider's consortium partners towards the end of negotiations
- the unique nature of the network being created.

At the time of the audit, the design of the network was running on time and in accordance with the contracted timetable.

In 2001, the bureau, with 2 shortlisted bidders, terminated one and subsequently appointed the other as the preferred proponent. It did so after seeking legal and probity advice. Some 2 years was then spent clarifying the tender and negotiating a contract with the preferred bidder, rather than the originally planned period of 2 months. We understand that another of the bureau's major telecommunications projects recently achieved a contract negotiation period of less than 2 months.

The project's probity auditor ultimately reported that, to the best of their knowledge, nothing had arisen during the tender process which would indicate that the standard of effective probity required by the Victorian Government had not been achieved.

The project director, prior to the signing of the contract, prepared a comprehensive final report on the conduct of the tender process. That report concluded that value-for-money had been achieved, noted that the probity auditor had found that the procurement process was consistent with Victorian Government requirements, and recommended signing of the contract.

Probity and legal advice supported the bureau's decision to terminate the other short listed bidder in 2001, and then vary the project scope on the basis that:

- the bureau had a legal right to vary the project scope (despite there being no expressed acknowledgement of this right in the tender documents)
- both bidders should have been aware of this legal right to vary the scope
- although the successful bidder did not fully comply with the tender criteria, the other bidder complied even less; and the bureau believed that the then-proposed change in project scope would not result in the other bidder complying with the criteria
- the tender documents allowed the bureau to reject any non-complying submission, and to terminate any bidders participation in the tender process at any time.

Consequently, the other short listed bidder did not get the same opportunity to revise its tender in line with the then proposed change in project scope, or in line with the other significant changes in the project scope that occurred later during contract negotiations.

Victorian Government policy on tendering, while recognising the need to "fine tune" tender requirements during post-tender negotiations, has long emphasised the need to ensure equality of opportunity for shortlisted tenderers when changes to user requirements become necessary (which should not substantially alter the tender specification).

The public sector comparator was used to assess whether or not the final tender offered value-for-money. However, due to several factors, the comparator was not as accurate or useful as it can be for infrastructure projects. These factors were:

- this service had not been previously provided by the state, so it was hard to estimate what it would cost
- industry benchmark costs were not clear (unlike, for example, with the building and construction industry)
- the contract has a far shorter life than most infrastructure projects
- the technology used was specialised and quickly evolving
- the project risks are hard to estimate.

The 2001 comparator, in particular, significantly underestimated costs, and 3 major estimates were eventually made.

To analyse the preferred bid, the bureau adopted an "open book" approach by requiring them to detail in full all the changes in the costings in their final bid. This was done to further establish value-for-money and for transparency. The bureau also provided the preferred bidder with details of its raw public sector comparator (which was not adjusted for risk).

After the preferred bidder was announced in late 2001, and before the contract was signed in June 2003, 2 overseas inspection tours and a consultant's report confirmed the bureau's earlier finding that the proposed network would be reliable. However, it was not established that the technology would also be the most up-to-date and reliable in the market.

At the time of the audit, the contract had been let and the network design phase was underway, covering:

- the look and content of vehicle computer screens
- installation of computers in some 51 different types of vehicles
- linking of agency databases to the network
- designing the performance management system
- training and transitional plans.

Conclusion

As a consequence of delays in finalising the project's contractual arrangements, the project's anticipated financial and operational benefits have not yet been realised. These benefits include extra fine revenue, productivity gains, an easing of demand on the existing emergency services voice radio networks and some cost savings from the withdrawal of registration labels.

Delays, together with the termination of the other shortlisted bidder some years before contract signing, made it more important than usual that the bureau ensure the proposed network gave value-for-money, and that the tendering process (as required by government policy) was beyond reproach.

The preferred bidder received additional opportunities to revise their proposal during protracted negotiations over 2 years with the bureau. This resulted from significant changes to the scope and subsequently the cost of the project. The final agreed project significantly departed from the original business case (which underpinned the tender specifications).

It is contrary to good practice, and inconsistent with the Victorian government policy on tendering, to negotiate with a single tenderer for a significantly changed project scope over a 2 year period.

The protracted negotiation period with a single tenderer made it more difficult for the state to clearly establish whether:

- it was receiving value-for-money, particularly given the limitations of the public sector comparator
- the network would be both reliable and the technology the most up-to-date in the market.

In these circumstances, it may have been more appropriate to retender the project.

Recommendation

15. That the bureau follow good practice on probity in tendering by not engaging in protracted contract negotiations with a single proponent based on a significantly changed project scope.

2.7.6 Was the contract sufficiently comprehensive?

In assessing whether the contract was sufficiently comprehensive, we examined if it:

- adequately specified the network objectives
- specified key milestones and targets, identified risks and allocated responsibilities
- defined measurable user requirements
- specified in enough detail deliverables and contractor obligations
- included clear and comprehensive performance measurement and management arrangements (with regular reporting, review and verification) to assess the achievement of the project objectives and deliverables; and had suitable incentives and sanctions
- allowed for changes in user requirement and for updating technology
- included an agreed contract price within the approved budget.

In June 2003, the state signed a contract with Motorola Australia Pty Ltd to design, implement and operate the mobile data network to 2010.

The contract sets out the approved project objectives and key milestones, allocates risks, specifies each party's rights and obligations, and details user requirements. The contract also allows for future expansion of the network by including agreed pricing methods should the state decide to expand the network.

The contract includes performance measures for message success rates, system availability, system response time and terminal reliability. It also provides for payments to be changed if performance does not meet the specified requirements.

Motorola Australia, pursuant to the contract, is currently designing the reports it will give to the bureau to monitor its performance. The bureau will also design performance measures to assess whether the network is delivering on its expected benefits. At the time of the audit, the bureau had not finalised how to gather and report information against these measures. However, the state's forward revenue budget estimates already take account of the projected additional fine revenue.

The government's *Partnerships Victoria* policy is that risks should generally be allocated to the party best able to manage them, at the least cost. The contract transfers financing, design, development and service delivery risks to the network provider. The state has decided to accept some key risks arising from the contractual arrangements and the project generally. They include:

- the cost of modifying the network to use any technological advances which occur before 2010
- under-use of the network by operational staff leading to benefits being less than expected. Further comment on the status of agency change management strategies to mitigate this risk is included later in this report
- costs of work on the state's existing computerised databases that exceed the budget
- increased service payments (and potentially decreased network performance) from greater message traffic (although the state has built a 20 per cent buffer into the contracted message volumes)
- the cost of expanding the network, if the state goes ahead with its intention for a staged implementation
- failure by the state to make the necessary vehicles available for the installation of network computers (in which case an extension of time may result and the state is liable for costs of delays)
- the requirement to pay any increase in the network provider's professional indemnity insurance costs beyond the level set in the contract
- costs of damage to, or loss of, network computers as a direct result of a negligent act or omission by the state or its agencies

- costs when the contract expires. While the state can acquire the network for a nominal sum when the contract expires, it would have to lease the communications towers on commercial terms and pay a software licence fee
- any adverse effect on the performance of the network, if it is later used to transmit images. While the software is capable of transmitting images, the effect on the network's performance has not yet been determined.

A risk register is maintained for the project which includes the above risks, and the subcommittee monitors project team actions to mitigate risks.

The contract sets out the security, backup and disaster recovery requirements of the state.

Conclusion

The state is exposed to several risks which will need to be carefully managed by the bureau and by agencies.

Further work is needed on the performance management regime for the project.

2.7.7 Were there adequate change management plans?

In assessing whether there were adequate change management plans, we examined if:

- training needs and change management issues had been adequately identified and analysed
- change management plans had been developed
- progress implementing those plans was what might be expected at this stage of the project.

The introduction of the network in December 2005 will cause Victoria Police and Metropolitan Ambulance Service field staff to change their work practices.

The contract requires Motorola Australia to develop and provide to Victoria Police and the Metropolitan Ambulance Service a computer-based, "train the trainer" training program based on the findings of a training needs analysis. Motorola Australia has already conducted a training needs analysis for Victoria Police.

To supplement Motorola Australia's program, Victoria Police has prepared a training development and implementation strategy.

At the time of the audit, the Metropolitan Ambulance Service was developing an operational transition and training plan, in conjunction with Motorola Australia.

Victoria Police and the Metropolitan Ambulance Service have begun to ensure that users are sufficiently aware of, and accepting of, the network. They have held 'mock-up trials' (which included fitting out vehicles with network computers) and surveyed staff reactions to the mock-up vehicles. Also, Victoria Police:

- held a forum in January 2003 (which was attended by about 200 users) to raise awareness of the network
- is developing a communication strategy for the project
- created 5 customer reference groups, including training and change management, management information, occupational health and safety, supervisors and users.

The bureau is currently developing a coordinated state implementation-planning framework. This planning framework will be supported through planning workshops that will be held throughout the implementation phase of the project.

Conclusion

For the network to deliver the intended benefits, agencies need to convince users to use the network, and teach them how to.

Victoria Police's training and change management activities are well progressed compared with those of the Metropolitan Ambulance Service. This is consistent with the relatively greater benefits estimated to be realised by Victoria Police from the network.

RESPONSE provided by the Secretary, Department of Justice

Background and Context

The Department agrees with the Audit Office that the Mobile Data Network (MDN) Project has been complex and challenging. It is therefore essential that the complexity of the prevailing circumstances, and the nature of the process itself, are both understood and taken into account in reviewing the Audit Report's recommendations.

Certain aspects of the delayed, final Metropolitan Ambulance Service Royal Commission (MASRC) recommendations in November 2001 heavily impacted upon the contractual roles, responsibilities, demarcations and liabilities between private sector Service Providers, the Agencies (as customers of the Service), the State and BEST (as the State's representative). It was critical that the relevant and pertinent recommendations were appropriately considered and addressed within the MDN Services Agreement, and this resulted in a delay to the MDN Project.

Audit conclusion - Departmental Response

The Department maintains its expectation that MDN will result in operational effectiveness and efficiencies, improved staff safety, recovery of fine revenue, cost savings and productivity gains for Victoria Police and MAS.

The Department considers that the governance of the Project has been very effective given the uniqueness and complexity of the project and, that there are no comparable international mobile data projects of this size that are delivered on a service provision basis by the private sector.

There are no known mobile data services that are delivered on a service provision basis that can be used as a reference for developing a costing benchmark. The Peter Fitzgerald "Review of Partnerships Victoria Provided Infrastructure" Dec 2003 report, in his review of the MDN project, highlighted the difficulty in developing a costing benchmark in one-off projects where public sector provision is not a real option. The Department considers that the requirements were well specified and remained reasonably stable (particularly for MAS). The advice provided by the State's independent consultants (technical and commercial) in relation to the costs were later found to be inadequate in a number of areas and this was addressed in an appropriate way.

The Department does not agree with the Report's claim that it had negotiated with a single tenderer for a significantly changed project scope over a 2-year period as the core scope remained intact. Also, the preferred bidder did not receive additional opportunities to significantly revise their proposal nor was this contrary to good practice or inconsistent with the Victorian government policy on tendering. The Procurement Report stated that the second short listed supplier was assessed as being significantly non-compliant due to major departures from the State's requirements.

An independent Probity Advisor, Ernst & Young, was engaged to oversee the MDN procurement process, including any revisions; no concerns were raised at any stage of the procurement process. The allegations regarding the timing and conduct of the negotiation period, and the alleged 'significant' changes to scope are unsubstantiated. The Project's functionality and customer requirements outlined in the RFP have remained relatively unchanged throughout the project period.

The decision to introduce the customers on a phased basis was in response to the tight budgetary environment. Additional pressure to re-prioritise MDN customers arose through the concurrent introduction of other priority SIPSaCS projects. The Department firmly believes that little was to be achieved by either involving two bidders during the negotiation process or going back to the market.

It is not considered best tendering or ethical practice to retain a bidder at their considerable cost merely as a 'stalking horse' to achieve competitive tension.

Negotiations with Motorola Australia Pty Ltd (Motorola) were not conducted over a 2-year period. Negotiations commenced in May 2002, with the endorsement of the Ministerial Steering Committee for Emergency Services Telecommunications (MSCEST) and concluded in June 2003 with contract execution by the Minister for Police and Emergency Services and Motorola; a thirteen month period. This timeframe also included obtaining appropriate internal and external approvals prior to contract execution.

The Department's activities in the 12 months preceding May 2002 included a series of clarification discussions with Motorola, the development of the October 2001 MDN Revised Business Case, the development and the release of the MDN Addendum Request for Proposal (RFP), considering the delayed findings of the MAS Royal Commission and the evaluation of Motorola's response to the MDN Addendum RFP. These activities were not identified in the Report and have been incorrectly interpreted as being part of the negotiation process with Motorola.

> ***DTF comment:*** *It is not an accurate statement to claim that negotiation with the preferred tenderer for a period of two years provided additional opportunities to the preferred tenderer and that this was inconsistent with government policy. Negotiations with preferred bidders and changes to bids at this stage are not inappropriate. The issue of 'process' should be separated from that of timeframe. Each short listed tenderer was provided with equal opportunity to bid against the RFP. At all stages DTF understood from the Project Team and Probity Advisor that one tenderer presented a better value for money outcome to such an extent, that it was decided to appoint a preferred tenderer rather than continue to deal with two bidders.*
>
> *The report is not clear what could have been achieved by a return to the market as it fails to recognise the complexities of the project and market circumstances at that time. In addition, continuing to negotiate with a tenderer not considered competitive is not a recommended practice and is not supported by tendering policies. It is contrary to Probity advice and market expectations. Applying the principle of fairness means that uncompetitive bidders are not used for the convenience of the Department, as a "stalking horse", to create additional competitive tension with the preferred bidder. Such an approach is unethical and a waste of resources and time for the uncompetitive bidder(s) and restricts the seeking of other business opportunities.*

The MDN negotiation process was further complicated by the transition of the Call-Taking and Dispatch (CTD) services from Intergraph Public Safety to Emergency Communications Victoria (ECV) on 4th September 2002.

The PSC developed by the State's Partnerships Victoria' advisors for the last updated business case (October 2002) stated that a value for money outcome was achieved. The State received independent, expert technical advice as to the relevance, functionality and reliability of the technology offered in Motorola's proposal. The Department's internal and external advisors were not satisfied that alternative, proven solutions would be available. Motorola's final offer included the latest (proven) software, terminal hardware and infrastructure for the MDN platform.

The network offered by Motorola was assessed and judged to be reliable, and there is no evidence presented in the Report that contradicts this. The Audit Report assumes that the "most up-to-date" technology is best. Unless technology has proven functionality and reliability (as sought in the RFP), it is liable to create unacceptable risk especially in an emergency service context.

Were the business cases adequate?

The core functionality of the MDN Services have remained unchanged.

All revisions of scope on the MDN project were subject to review by the Probity Advisor and were included in the revised business case approved by Government in 2002. No concerns were raised by any party during the procurement process and again, the core functionality remains unchanged.

The site reference visits highlighted reliability problems with using ruggedised, removable laptop computers. To minimise project risk it was decided to replace these with fixed in-vehicle terminals & portable computing devices.

There were a number of imperatives that drove the need to review various aspects of the project scope, resulting in the following changes from the original to the addendum business case: Development, testing & rollout of interfaces and the removal of 440 Victoria Police country MDT's (country MDN coverage was not sought as part of the RFP at that stage). To better accommodate Victoria Police IT arrangements the proposed new 100 fixed (MDN) computer terminals at Police Stations were substituted for 145 software applications being installed on existing computer terminals. Victoria Police reviewed the maintenance regime requirements and there was refinement of private sector financing costs, transferable risks & efficiencies and review of internal project costs. Some of the participating ESOs (Metropolitan Fire and Emergency Services Board (MFESB), Victoria State Emergency Service (VICSES) & the Country Fire Authority (CFA) were deferred, acknowledging there were more urgent priorities for other SIPSaCS projects. The ESO deferral was ratified by the MSCEST and subsequently the ERC.

The reduction in message volumes arose through a better understanding of the capabilities of the Service and how it would be used, that is, from its original specification in 1998. The Report's comment 'cost estimates have increased' are misleading when made in isolation without identifying the cost offsets. The Report should state that the net cost to Government remained reasonably static from 2001, that is, in 2001 the total cost of the project was estimated at $132.6 million, offsets at $43.1 million = $89.5 million net cost. In October 2003, the total cost was estimated at $171 million, offsets at $82.9 million = $88.1 million net cost.

The major merit of the MDN Project was not to be cost neutral nor revenue generation but to provide more effective policing and ambulance services.

The Department is confident it has implemented appropriate risk management regimes to manage project risks.

The deferral of Out Of Car Functionality (OOCF) for Victoria Police vehicles was ultimately based on an extremely costly solution which, for durability reasons, had perceived technical shortcomings. This deferral did not "withdraw the field reporting feature", as the ability to send Patrol Duty Returns via MDN to the Victoria Police LAN / WAN environment continues to be within the current scope of the project. The reduction in Victoria Police MDT's from 1100 to 700 has still ensured that all operational vehicles will be fitted out with MDT's with no reduction in potential benefits.

The Department applied due diligence in correcting identified omissions or under estimates. The ERC continued to support the Project with its approval of the final amended business case.

The Department subsequently identified that there were a number of sensitive aspects (for example, CAD interface development) in the 1998 business case which were not adequately estimated by the Project Advisors.

BEST has relied on a significant number of independent technical and commercial consultants engaged to provide advice to the State throughout the MDN Project.

Was the Governance Framework Appropriate?

The level of governance and consultation in the last three years of the project has arguably been best practice. The Department engaged an independent Probity Advisor for the procurement process, leading technical and commercial / financial consultants, a highly qualified and internationally experienced Project Director and has also recruited private and public sector experience to the MDN Project team. The ongoing progress of the Project has been monitored by the MSCEST MDN Sub-committee (Steering Committee), which includes an independent chairperson from the private sector. Moreover, the MSCEST itself reviewed the MDN project process.

The Department will continue to use a wide range of independent expertise and continue with its quality initiatives to provide the appropriate checks and balances.

Was the Procurement Process Well Executed?

The shorter contract negotiation period for the MMR Project was achieved through the knowledge and learnings accumulated through the previous MDN process. The decision by DTF for the early release of the raw MMR PSC greatly contributed to maintaining a competitive atmosphere, in addition to having two, technically viable and capable bidders.

The MDN specification comprises over two thousand requirements and the vast majority of these were retained throughout the process.

DTF Response:

The responsibility of the VGPB and its policies does not extend to the purchasing arrangements associated with a project undertaken in accord with the Partnerships Victoria policy published in June 2001. The Report does not make any references to the Partnerships Victoria policy and guidelines, and in particular ignores Chapter 12 of the Practitioner's Guide. Chapter 12 clearly addresses negotiations with bidder(s) on potentially a wide range of issues. The Probity Guidelines produced by the VGPB dated May 2001, and subsequent Probity Best Practice Advice, do, however, apply to Partnerships Victoria projects. These were fully complied with as signed-off by the Probity Advisor in the MDN project.

DTF believes that it is an incorrect reading of the VGPB Probity Policy to effectively say that this Policy means all tender participants must be given equal access to information at all stages in a bidding process. For example, the Policy does not require all EOI respondents to be given the identical information provided to the RFP shortlist.

Nor does the Policy read that the Department must negotiate, post the RFP evaluation, with both the appointed preferred bidder and any other short listed bidder. At all times during the preferred bidder stage, the Department was cognisant of, and obtained confirmation from the project team, that the preferred bidder status for Motorola was clearly warranted.

DTF does not support the claim that the PSC was not as accurate or useful as it is for other infrastructure projects. While there was some concerns over the accuracy of the PSC in the initial stages of the project these were addressed and rectified.

The Department worked within and according to Government procurement policy, PV policy and according to best project management and governance practices. There are no indicators that a value for money outcome has not been achieved or that tendering / procurement processes were not followed. The adoption of open book pricing, release of the raw PSC and establishment of a MSCEST sub-committee as the Project 'Board' ensured a high level of probity and confidence in the conduct and completion of the procurement process.

The Department also notes that the Victorian Government Purchasing board (VGPB) policy on tendering was revised as late as December 2002 and other than the Probity guidelines, this policy does not apply to this project. The MDN Project did follow the Partnerships Victoria Policy and the VGPB Probity guidelines.

The negotiation period had no bearing upon the State's ability to review the reliability and currency of the MDN technology.

The State's technical advisors confirmed that the reliability of the network would exceed the State's requirements. The currency of the technology offered was never in doubt given that the ESO site visits to the U.S.A. and Canada confirmed Emergency Service user' acceptance and satisfaction with Motorola's MDN technology and that Motorola had demonstrated a solid commitment in bid clarifications to the future support of the MDN technology platform.

It should also be noted Motorola has signed new contracts for the deployment of the technology being purchased by the State since the MDN Contract was signed.

The 'Premier MDC' MDT application software was assessed by the State's technical advisors as having a high level of compliance to CUR's. This compliance was one of the major factors for the State accepting Motorola's 'Alternate Offer' as the basis to progress negotiations. 'Premier MDC' is extensively used in North American jurisdictions to a high degree of user satisfaction.

BEST has recruited a large number of telecommunication specialists and, together with its independent SIPSaCS telecommunications advisors, have developed a strong collective awareness of current technologies and services in the market. This level of awareness is considered highly adequate enough to mitigate the need for any formal reviews of available MDN technologies. Concurrent market tests for other SIPSaCS projects during the MDN contract negotiation period did not reveal any market developments that required review of the offered MDN technology.

A key SIPSaCS principle (endorsed by Cabinet) states that technologies procured should be "leading" and not "bleeding" edge. No other available technologies were known that would have been developed to a point where the State could have abandoned the procurement process and realised a more advanced or leading edge technology.

The Department determined that it would be detrimental to the Project if the process was suspended/cancelled and re-tendered, given the extended Project schedule (to date) and the unlikelihood that a more favourable offer to the State could be achieved, versus the advanced status of MDN contract negotiations at that time.

The Department strongly rejects the Report's implication that BEST did not follow 'good practice on probity in tendering'. BEST acted, at all times, in accordance with the highest probity requirements and good project management practices. This is evidenced by the Probity Advisor's reports and sign-off on the Project.

Is the Contract Sufficiently Comprehensive?

In relation to Motorola's reporting to the State, the MDN Contract has detailed performance reporting requirements which the Service Provider is to provide to the State. The Service Provider is designing reports for the performance metrics that will form the basis of reporting to the State (as defined in the requirements of the MDN Project Service Agreement), and these reports are being reviewed for completeness by the State's independent technical advisor.

It is not accurate for the Audit Report to claim that the Department has not decided how to gather and report information on business case outcomes. The MDN Contract Manager is actively working with the ESOs and ECV to ensure that the expected benefits of the MDN Service will be accurately measured and reported upon. A broad framework has been developed and will be further developed in consultation with the ESOs and ECV.

The reporting process will be monitored on a regular basis as part of the State's reporting on the MDN contract. The Partnerships Victoria Contract Management Policy and guidelines is being fully implemented. The revenue benefits included in the Business Case were based on models developed with, and agreed by, the ESOs at that time.

It should be noted Motorola has committed to a scalable network to meet future demand. The State is only obliged to pay for an increase in Service Provider's Professional Indemnity Insurance. This was agreed during the prevalent uncertainties of insurable indemnities at that time. The risks stated above were already identified by the Department as part of effectively managing project risks.

As per Partnership Victoria policy, risks are allocated to the party best able to manage them. This means that some risks are transferred to the private party and others are retained by the State, an approach that supports a value for money outcome.

The Report's comments potentially claim that the State is exposed to several risks – the statement is ambiguous and implies there are major, unaddressed risks. It should be noted that the State has in place a comprehensive approach to contract management, policies and procedures - this should allow the transferred risks to be effectively managed. In practice this extends from having appropriately skilled project teams <u>and</u> clear processes for identifying and managing issues and risks for the duration of the contact. This is strengthened by the Governance arrangements in place for the MDN contract.

Were there adequate change management plans?

MAS has conducted a number of activities to ensure that MAS staff are aware of the MDN network and features, similar to those identified for Victoria Police.

Department conclusion

The Department disagrees with the Audit Report finding that the Department should have re-tendered the project, as the core functionality of the Project has remained unchanged.

In addition, the Report does not take into account the additional costs, increased delays and no certainty of an improved outcome had the Department re-tendered the Project.

FURTHER COMMENT by Auditor-General

In its response, the department makes a number of assertions with which we disagree, namely:

- Our report does not assume that the "most up-to-date" technology is best. Our report states that the protracted negotiation period made it more difficult for the department to establish that the network technology would be the most up-to-date and reliable in the market
- The core functionality of the network did change following the request for tenders. For example, the field reporting feature (out of car functionality) was deferred as part of the changes in the project's scope after the issue of the request for tender
- Our report does not state the field reporting feature (out of car functionality) was withdrawn, rather it states it was deferred
- Our report does not state that the department must negotiate, post tender evaluation, with both the preferred bidder and any other shortlisted bidder. It states that the other shorlisted bidder did not get the same opportunity to revise its tender in line with the proposed changes in project scope subsequent to tender. Further, our report concludes, on the basis of good practice, that in these circumstances it may have been more appropriate to re-tender the project.

The department's response primarily takes issue with our comments regarding the protracted negotiation period with a single tenderer, during which the project scope changed significantly. Notwithstanding the department's response, we believe our conclusions are sound. We also believe there are valuable lessons to take from projects of this complexity when considering similar arrangements in the future.

2.8 Was the redevelopment of the National Gallery of Victoria satisfactorily completed?

2.8.1 Audit conclusion

The National Gallery redevelopment modified and expanded facilities at the National Gallery of Victoria's (NGV) St Kilda Road site.

The redevelopment project was completed in May 2003, at a cost of $164 million, some $28 million over the initial estimate. This increase was mainly due to changes to the project scope and was largely funded by the trustees of the NGV and private benefactors.

Since the redeveloped facilities opened, 2 large glass panels shattered. The trustees of NGV took action to minimise the safety risk if similar events happened again.

2.8.2 Introduction

The NGV redevelopment modified and expanded facilities at the NGV's St Kilda Road site. The project increased and improved the permanent exhibition space, significantly increased high-quality storage capacity, and provided modern lecture theatres and ancillary areas, so the NGV could provide a broader range of education and public programs.

Our June 2002 *Report on Public Sector Agencies* reported on this project, and focussed on its governance and contract arrangements.

In that report, we found that while the project's governance structure was sound, there were inadequacies in the processes used to select the architects and the construction contractor. We also reported that:

- the expected project completion date was extended from late 2001 to July 2003
- the expected cost of the project increased from the initial estimate of $136 million to $148.7 million.

2.8.3 Was the redevelopment project completed on time and within budget?

The redevelopment project was completed in May 2003, at a cost of $164 million, some $28 million over the initial estimate.

The trustees of NGV and private benefactors largely funded the extra costs. The Victorian Government provided a further $4.1 million and the Victorian Arts Centre Trust contributed $2.1 million.

Around $26 million of the additional costs were due to changes made by the NGV to the scope of the project, to increase the functionality and improve the aesthetics of the redevelopment. The design for ceilings was amended, wall and floor surfaces improved, administrative accommodation and catering facilities increased, dining areas made larger, and fit-out of the Exhibition and Costume Galleries and Great Hall kitchen included. These incorporated changes costing about $13 million that were made since our previous report. The NGV paid for its contribution using fundraising revenue.

Changes to the car parking facilities, required by the Victorian Arts Centre Trust, added the other $2 million to the cost increase.

As we reported in June 2002, the completion date extension was mainly due to a delay in finalising architectural contracts and plans.

2.8.4 Were issues that arose after project completion effectively managed?

Since the redeveloped facilities opened, 2 large glass panels have shattered.

On 30 December 2003, a toughened glass panel above a walkway shattered. Fragments of glass fell onto the walkway below and the bluestone floor. No-one was injured. The greater part of the glass panel remained in place. The toughened glass broke as it was supposed to, into tiny fragments that minimised the risk of injury.

The NGV commissioned an independent engineering report on the breakage. Although the report could not definitely identify the cause of the breakage, it confirmed that all glass was installed in line with specifications and the relevant building codes. It recommended that safety film be applied to glass panels, to hold shattered glass in place if a similar incident was to happen again. The safety film was subsequently installed.

The total cost of replacing the shattered panel, repairs to the walkways and installing safety film was $415 000. The NGV submitted a claim to its insurer, and this is yet to be resolved.

On 7 February 2004, a toughened glass panel in a folding glass wall separating the gallery shop from the ground floor cafe fell about 10 cm from its track. It struck the floor and shattered into small safety glass fragments. These fragments showered the staff member folding away the panels. The staff member had superficial injuries and was discharged from hospital a few hours after being admitted. The insurer was notified of the incident, although the repair costs are expected to be relatively small.

In response to the 2 incidents, the NGV commissioned an engineering firm to do a complete audit of all glass installed at the St Kilda Road site. The audit found that glass balustrades pose the greatest risk, that this risk should be minimised by installing edge protection and, in some cases, by replacing toughened glass with laminated glass. The report found that the NGV has strategies to deal with defects known to exist in Coles and Murdoch Courts, Federation Court, the water wall and the glass wall between the shop and the cafe. Architects are currently designing stainless steel edge protection and identifying which balustrades need additional rail protection and are to be replaced with laminated glass.

The NGV has also commissioned a general risk review of its St Kilda Road site to identify hazards, analyse and prioritise risks, and prepare a risk management plan and staff training plan. This review was underway.

2.9 Did the Melbourne Market Authority adequately manage its investment in Fresh Chain Ltd?

2.9.1 Audit conclusion

Between 1998 and 2004, the Melbourne Market Authority (MMA) invested $14.36 million in the development of an internet-based trading system. The system was not successfully implemented and the investment was written-off.

The MMA board substantially met the criteria identified for the successful development of a business case. However, it failed to adequately revise and reassess the business case to take account of changing requirements.

The MMA board did not ensure that governance arrangements within Fresh Chain, and between the authority and Fresh Chain, were adequate.

The MMA board did not adequately manage and monitor its investment in Fresh Chain.

> ***RESPONSE provided by Chairman, Melbourne Market Authority***
>
> *I accept the conclusions made. The new MMA board has finalised and closed the Fresh Chain project. I agree with the recommendations made and will ensure that they are adopted should the board consider any future projects of this type.*
>
> ***RESPONSE provided by Acting Secretary, Department of Primary Industries***
>
> *We accept the 4 audit conclusions made in the report.*
>
> *We support the recommendations made in the report with respect to corporate governance and financial management.*

2.9.2 Background

Between 1998-99 and 2003-04, the MMA spent $14.36 million developing an internet-based trading system. The trading system was initially developed within the MMA, but in 2000-01 Fresh Chain Ltd was formed to take over the development. The company had its own board and executive, and was 100 per cent owned by the MMA.

Figure 2.9A shows the contributions made by the MMA to Fresh Chain between 1998-99 and 2003-04, and the valuation of these investments in MMA's accounts.

FIGURE 2.9A: INVESTMENTS BY MELBOURNE MARKET AUTHORITY IN FRESH CHAIN LTD

Period	Amount invested	Valuation of investment
1998-99	$360 144	$360 114
1999-2000	$318 320	$678 434
2000-01	$2 118 114	$2 796 610
2001-02	$9 630 476	(a) -
2002-03	$1 765 756	-
2003-04	(b) $170 204	-
Total	**$14 363 014**	**-**

(a) The board of MMA wrote-off its investment in Fresh Chain in the year ended 30 June 2002. The basis for this decision was the difficulty in raising funds and the decision by Fresh Chain to consider its future operations.

(b) Some further expenditures may be required to cover the costs of winding-up Fresh Chain.

Source: Victorian Auditor-General's Office.

As Figure 2.9B shows, Fresh Chain also made 4 attempts to raise capital from other investors.

FIGURE 2.9B: ATTEMPTS BY FRESH CHAIN TO RAISE EXTERNAL CAPITAL

Date	Target	Method/Result
May 2001	$10 million	An information memorandum was issued to potential industry and other investors. It was unsuccessful and no funds were raised.
October 2001	$4 million	Attempted listing of Fresh Chain on the ASX through an existing company. This was subject to a successful rights issue. The rights issue was unsuccessful and the underwriter withdrew their support for the listing.
April 2002	$10 million (later reduced to $5 million)	Another information memorandum was issued. Although $1 million in funds were secured and further commitments received, the funds raised were not retained as the amounts were insufficient to meet Fresh Chain's current and ongoing committed expenses and liabilities.
September 2002	$3 million	A request was made to the government for funding. The request was declined after a review on the minister's behalf noted that about $5 million was required to complete a successful capital raising.

Source: Victorian Auditor-General's Office.

In April 2003, a new board was appointed to the MMA. The new board commissioned a study of the viability of Fresh Chain, and the options available to MMA, by consultants. As a result of this study, the MMA board decided (as the majority shareholder in Fresh Chain) to cease all Fresh Chain operations and close the business on 30 June 2003. In August 2003, the board appointed an agent to sell Fresh Chain. To date, no reasonable offer has been received for the Fresh Chain assets.

Figure 2.9C summarises the nature of the expenditure incurred by Fresh Chain over its period of operation.

FIGURE 2.9C: NATURE OF EXPENDITURE INCURRED

	Total	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
System development	5 152 821			681 793	4 104 576	310 840	55 612
Board and executive remuneration	1 993 820			360 654	947 337	677 137	8 692
IT hardware	1 172 200				1 172 200		
Capital raising	730 995			286 900	340 498	103 597	
Feasibility study	678 464	360 144	318 320				
Legal services	669 578			258 300	282 074	100 204	29 000
Marketing	477 579				413 579	64 000	
Accounting services	189 358				161 958	20 690	6 710
Other	3 298 199			530 467	2 208 254	489 288	70 190
Total	**14 363 014**	**360 144**	**318 320**	**2 118 114**	**9 630 476**	**1 765 756**	**170 204**

Source: Victorian Auditor-General's Office.

The impact of Fresh Chain on the MMA was significant. Figure 2.9D details a number of key indicators of the financial performance of the MMA over the period of the investment in Fresh Chain. As can be seen from the figure, the costs associated with the investment have placed strain on the operations of the MMA.

FIGURE 2.9D: FINANCIAL PERFORMANCE OF THE MMA

Year	Operating result	Net current assets	Net cash flows
2003	693 809	(4 085 170)	2 360 390
2002	(9 474 130)	(3 527 606)	1 033 440
2001	3 667 804	3 849 810	5 285 915
2000	2 515 690	4 315 948	3 909 160
1999	2 057 013	2 760 665	2 349 284

Source: Victorian Auditor-General's Office.

2.9.3 Was there an adequate business case supporting the decision to invest?

In assessing whether an adequate business case supported the decision by the MMA to invest in Fresh Chain and associated technology, we examined whether:

- a business case was prepared
- the level of interest of potential suppliers and customers was assessed
- user requirements, and the main features of the software required to satisfy them, were determined
- risks to the project were identified
- financial requirements were identified.

A formal business case for the Fresh Chain proposal was prepared. The MMA examined the proposal at length. It appointed consultants to conduct national market research of grower and distribution regions and produce groups. In designing the electronic trading system, the supply chain was mapped in detail using information from workshops with growers, wholesalers and commercial customers in Victoria.

The board:

- sought industry's views about the need for an electronic trading system
- commissioned an initial feasibility study. The results were documented in a project report dated March 1999, which included the business case. The business case predicted that Fresh Chain could be self-funding within 3 years but that the revenue projections were sensitive to user take-up estimates and the fees were based on subscriber numbers which were, in turn, influenced by how well Fresh Chain management implemented the recommended package of services and information
- prepared a business plan in January 2000. This business plan predicted a potential profitable position after 2 years, provided Fresh Chain was marketed on an Australia-wide basis, the take-up rate was sufficient, and the financing arrangements, corporate structures and communication elements did not delay the development of the system.

We were unable to determine how the key business risks/assumptions in the business case were subsequently managed by the MMA or Fresh Chain. Minutes of the MMA board meetings do briefly mention subsequent discussions or updates on the capital raising, marketing and the system developments but there is no discussion of the management of the key risks and/or assumptions underlying the business case.

Minutes of the MMA board indicated that there was no approval of a budget for Fresh Chain, or for investments in it. Project expenses were approved as they arose and often after they were incurred, with no formal consideration by the board, or in the context of a whole-project budget. Project costs were originally estimated at between $4 million and $6 million. It appears that there was no review of the original estimates once costs went past $6 million. Costs to date are $14.36 million.

We did not find evidence that the business case was reviewed after 11 September 2001, after the dot com crash or after the 4 unsuccessful capital raisings.

Conclusions

The MMA board substantially met the criteria identified for the successful development of an appropriate business case.

It appears, however, that the MMA board did not obtain formal revisions and reassessments of the identified risks and financial implications to the business plan. This was despite original targets not being met.

2.9.4 Were governance arrangements for Fresh Chain adequate?

In assessing whether governance arrangements for Fresh Chain were adequate, we examined whether:

- a qualified and experienced board was appointed
- the necessary board subcommittees were established
- necessary financial protocols were implemented.

Fresh Chain Ltd had a 5-member board. No board member was nominated for their experience in either capital raising or in developing complex information technology products. The Fresh Chain board did not include a director from the MMA; it had received legal advice that such an appointment could give rise to a conflict of interest.

The board's Audit and Corporate Governance Committee comprised Fresh Chain's chairman, 2 Fresh Chain directors, and the Fresh Chain chief executive (ex-officio) and chief finance officer (as committee secretary). The committee did not meet during Fresh Chain's life.

Several financial protocols were established between the MMA and Fresh Chain, which were to be observed until Fresh Chain raised enough capital to be self-sustaining. Under the protocols, the MMA undertook to meet Fresh Chain's costs until a capital raising was successful. Fresh Chain was required to conduct its affairs in accordance with the same rules and regulations under which the MMA was required to operate.

Conclusions

The MMA needed to ensure that clear and functioning governance arrangements were in place at Fresh Chain, to ensure the authority had up-to-date financial and operating information. The need for such arrangements was particularly great, given this was a new technology start-up.

The MMA established Fresh Chain with a board of qualified personnel (although not with the required experience), an audit committee and agreed financial protocols. This was a positive starting point.

Given the high risks that come with new technology start-ups, an effective audit committee was absolutely essential for good governance. Fresh Chain established an audit committee, but then did not use it. Further, the committee did not have independent members, or an independent chair. These are both requirements for good governance.

While the financial protocols were a sound idea, there was no formal mechanism for regularly reporting financial and operating performance to the MMA.

In all, the MMA did not ensure that governance arrangements within Fresh Chain, and between the authority and Fresh Chain, were adequate.

Recommendation

16. That parent bodies, when establishing a company or other agency to undertake a particular activity, ensure an appropriate level of control and involvement. This would normally include:

- **appointing to the board individuals with the range of interest, skills and experience relevant to the operations of the entity**
- **approving the appointments to the board and to subcommittees and ensuring subcommittees operate appropriately**
- **establishing detailed financial and operation protocols that incorporate reporting requirements.**

2.9.5 Did the MMA adequately manage and monitor its investment in Fresh Chain?

In assessing whether the MMA adequately managed and monitored its investment in Fresh Chain, we examined whether:

- information was routinely provided to the MMA about Fresh Chain's financial and operational performance
- risks, assumptions and other requirements were reassessed as circumstances changed
- action was taken to address any breaches in financial or other protocols
- the MMA undertook further monitoring or review where necessary.

Throughout the life of the project (both before and after Fresh Chain was incorporated), the MMA maintained contact with the project managers and Fresh Chain management.

The Fresh Chain chairman or chief executive officer gave the MMA board monthly updates on how development of the trading system and capital raising were progressing. The MMA board minutes about these updates are very brief. In most cases, formal papers do not appear to have been presented; where they were presented, they appear to have been very brief. MMA board meeting minutes and Fresh Chain progress reports show that Fresh Chain management continued to paint optimistic pictures of development progress and capital raising possibilities, despite the problems that later became obvious.

We did not find evidence (such as letters) of interest from potential investors.

We did not find evidence that the MMA ever revisited or revised any of the initial assumptions about risks.

Fresh Chain did not always follow the financial protocols between the company and the MMA. Notable breaches were:

- no evidence that Fresh Chain sought MMA board approval for any contracts up to $250 000
- appropriate ministerial and Treasurer's approval was not obtained for contracts where required
- no evidence of written tenders for work between $5 000 and $50 000, or of public tenders for contracts over $50 000
- capital expenditures over $5 000 were not always formally approved by the Fresh Chain board
- the Fresh Chain board not always approving non-capital expenditures over $50 000.

We found no evidence that the MMA did anything to ensure that the protocols were complied with.

In February 2002, internal audit reviewed the MMA's corporate governance processes (but not the Fresh Chain processes). Their report advised that:

- the MMA implement a risk register, to manage risk exposures
- the MMA management reporting, although of a high standard, is at a high level and no additional analysis is produced to assist in making informed decisions.

Following this review, the internal auditor wrote to the MMA's chief executive. This letter was discussed by the authority's board. The letter expressed concern about the governance of Fresh Chain and the authority's exposure to financial and political risks. In the letter, the internal auditor:

- advised that the MMA board is responsible and accountable for the activities and performance of Fresh Chain, and that any contracts, obligations or agreements entered into by Fresh Chain also bound the authority as the parent agency
- advised the chief executive to revise the current delegation plan and to enforce its controls
- recommended that an authority representative be on the Fresh Chain board, so that the MMA as the parent agency would have full knowledge of the operations and actions of its subsidiary
- advised that the limit of $1 million set by the MMA board for Fresh Chain expenditure for the period to 31 March 2002 had been exceeded
- indicated that the MMA needed to take action to ensure that the authority's operations and finances were not jeopardised by Fresh Chain's funding requirements

- advised that ministerial approval would be needed for any financing arrangements, and that the approval of the minister and Treasurer would be needed to list Fresh Chain on the Australian Stock Exchange.

In response to the letter, the MMA advised the internal auditor in writing that:

- MMA was "very much aware of its responsibilities" in relation to Fresh Chain and that the protocols between the MMA and Fresh Chain were monitored and adhered to
- although the MMA did not have a representative on the Fresh Chain board, the MMA chairman had attended all meetings and contributed to those meetings
- the MMA Chairman attended Fresh Chain management meetings when issues of strategic importance were discussed
- the formal due diligence process for Fresh Chain listing provided for Victorian Government approval before listing
- the minister (Primary Industries) was being kept up-to-date on all Fresh Chain developments
- that the $1 million limit had not been exceeded at the date of this letter from the internal auditor but would be by March 2002, and that further funding would be subject to MMA board approval.

The MMA did not tell the internal auditor what steps it would take to protect the authority's financial position from its exposure to Fresh Chain.

Although all our audit criteria were met to some extent, the MMA did not adequately manage and monitor its investment in Fresh Chain.

The information required from Fresh Chain was generally provided informally and was not thorough enough to enable its accuracy to be independently assessed. We found no evidence or indication that the MMA raised any questions about the information provided by Fresh Chain.

Because the original project assumptions (including the budget of $4 million to $6 million) were not revised as circumstances changed, the MMA board could not meaningfully monitor Fresh Chain's performance against expectations.

Despite repeated breaches of the financial protocols, no action was taken to ensure compliance in future. This rendered the protocols ineffectual.

The review of Fresh Chain's governance arrangements was a positive step. However, the MMA board failed to adequately address the issues raised by internal audit.

Recommendations

17. **That the MMA, should it fund the operations of another entity, has a detailed budget approved by its board; and that all expenditures over and above those budgeted be approved item-by-item in advance by the board.**

18. **That the MMA, if acting as the parent of another agency, ensures that all financial transactions be conducted in accordance with government requirements. This may include a subsidiary certifying compliance with these requirements.**

19. **That the MMA, as part of any agreement to fund a major project, requires written and detailed reports about the status of any proposed capital raising, expenditure, contracts, systems and potential investors.**

2.10 Were parks charges properly raised and spent?

2.10.1 Background

The "parks charge" is an annual levy on all commercial and residential properties in the Melbourne and metropolitan areas. About $80 million is collected each year through the levy. The *Water Industry Act 1994* sets out how park charges must be levied, and requires that the money collected be spent on developing and managing the parks, waterways and bays within the metropolitan area.

Parks charges collected must be paid into the Parks and Reserves Trust Account - an account administered by the Department of Sustainability and Environment (DSE). By agreement with DSE, parks charges are billed and collected by the 3 metropolitan retail water companies (Yarra Valley Water, South East Water and City West Water), and paid directly into the Parks and Reserves Trust Account. These companies are paid a fee for their levy collection services.

This audit examined whether parks charges in 2002-03 were administered in line with legislative requirements.

2.10.2 Were parks charges properly levied and collected?

In assessing whether parks charges in 2002-03 were properly levied and collected, we examined if they were:

- approved by the responsible minister and by the Governor in Council, as required by the Act
- levied only on commercial and residential properties in the Melbourne and metropolitan area
- paid into the Parks and Reserves Trust Account.

We also examined whether DSE had a service agreement with each retail water company setting out the rights and responsibilities of each party for billing and collecting the charges.

We found that the parks charge rate for 2002-03 was approved by the minister and by the Governor in Council, as required by the Act.

The 3 water companies had adequate controls, systems and processes for billing and collecting the parks charges. The charges were being levied and collected only on commercial and residential properties in the Melbourne and metropolitan area, as specified in the Act.

DSE had adequate processes to ensure that all parks charges were received by it and paid into the Trust Account.

Until recently, DSE and the retail water companies operated under a service arrangement drawn up before the deregulation of the water industry in 1994. In 2004, new agreements were drawn up with each company setting out the roles and responsibilities of each party. While these agreements were not signed at the time of our audit, the respective parties were operating under the new arrangements. DSE expects the agreements to be formally signed shortly.

Conclusion

In 2002-03, the parks charge was levied, collected and paid into the Parks and Reserve Trust Account in line with the requirements of the Act.

> ***RESPONSE provided by Secretary, Department of Sustainability and Environment***
>
> *The conclusion is accepted.*

2.10.3 Were parks charges only spent for the specified purposes?

In assessing whether parks charges for 2002-03 were properly spent, we examined if:

- the minister approved distributions from the trust account, as required under the Act
- DSE had clear guidelines and processes to determine how funds were distributed
- DSE had formal agreements with each funded agency about the purpose of funding, expected outcomes and reporting requirements
- DSE regularly monitored the performance of funded agencies, and took action if performance was not up to the requirements of the agreements
- the major funded agency (Parks Victoria) had sound budgeting, financial management and monitoring processes in place, to ensure that grants were only spent for specified purposes.

In 2002-03, $80 million was disbursed from the Parks and Reserves Trust Account. Of this, $56 million was granted to Parks Victoria, $9.9 million to the Royal Botanical Gardens, $9.5 million to the Melbourne Zoo and $1.5 million spent on other projects for the management of metropolitan parks. About $3.1 million was paid to the 3 retail water companies for billing and collection services. The minister approved all funds distributed in 2002-03, as required by the Act.

DSE had established clear guidelines and processes to determine how funds were distributed, as required by the Act.

The Minister for the Environment and DSE had also established a service agreement with Parks Victoria, but not with the other funded agencies. The agreement only broadly indicated how the parties would work together to manage parks, reserves and waterways, and provide other services. However, there was no specific requirement for Parks Victoria to report project outcomes (relating to the Parks and Reserves Trust Account funding) to DSE.

Parks Victoria has processes to ensure that grants are only spent for specified purposes, including budgets for projects in the metropolitan area and regular monitoring of expenditure against budgets. In 2002-03, Parks Victoria's spending on projects in the metropolitan area (around $64 million) exceeded the grants provided to it from the trust account (around $56 million), with the additional expenditure funded from other revenue sources.

Conclusion

In 2002-03, parks charges levied on metropolitan property owners were spent as required by the *Water Industry Act 1994*.

Recommendation

20. That the Department of Sustainability and Environment:

- **establish appropriate funding and service agreements, covering at least the purpose of the funding, expected outcomes and reporting requirements, with all funded agencies**
- **monitor the performance of funded agencies against the agreements.**

RESPONSE provided by Secretary, Department of Sustainability and Environment

I accept the conclusion reached and agree to implement the recommendation made.

The department will work with Parks Victoria and other funded agencies to refine funding and service agreements in line with an outcomes focus to cover purpose, expected outcomes and reporting requirements. This will include Statements of Intent being incorporated into planning processes and appropriate reporting processes to enable the contribution of projects to achieving required outcomes to be monitored and evaluated.

RESPONSE provided by Chief Executive, Parks Victoria

The conclusion and recommendations are agreed with.

Parks Victoria has processes to ensure that Parks and Reserves Trust grants are only spent for specified purposes and, in 2002-03, spending on projects in the metropolitan area exceeded the grants provided from the Trust Account.

Parks Victoria's annual business plan forms the service agreement with the Department of Sustainability and Environment (DSE) regarding delivery of outputs and reporting requirements. Parks Victoria will work with DSE to implement recommendations within the report regarding service specification and reporting as part of the annual business planning process.

2.10.4 Were Parks and Reserves Trust Account activities adequately transparent and made public?

We examined whether the operations of the Parks and Reserves Trust Account are transparent to the public, through parliament.

The Parks and Reserves Trust Account is the largest trust account managed by DSE. DSE does not report specifically or regularly to parliament about the trust account's operations, which are incorporated into DSE's financial statements.

Conclusion

Public accountability would be improved if DSE included details of the Parks and Reserves Trust Account's operations in its annual report to parliament.

Recommendation

21. That DSE's annual reports include summary information on the activities of the trust account.

RESPONSE provided by Secretary, Department of Sustainability and Environment

I accept the conclusion reached and agree to implement the recommendation made.

We will include information on the Trust Fund's activities in future annual reports of the department and work with the funded agencies to include summary information in their respective annual reports.

2.11 Was the consolidation of city accommodation for departments well managed?

2.11.1 Background

The Department of Treasury and Finance's Victorian Government Property Group (VGPG) manages the accommodation of all government departments and certain other public sector agencies. It manages office space in about 58 privately-owned properties and 26 government-owned properties. Each year, about $109 million is spent on private sector leases. The VGPG also works with agencies to identify their needs for office space, and recommends ways to meet these needs.

In early 2001, VGPG engaged property consultants to conduct market research into the availability and cost of office accommodation in the Melbourne central business district and city fringe, for the period June 2000 to June 2013.

Using the research, VGPG developed a City Accommodation Plan which was subsequently endorsed by government. In late 2001, based on the plan's recommendations, the government sought to lease 100 000 m^2 of "A" class office accommodation, to consolidate and upgrade some currently dispersed departmental office accommodation.

In October 2002, the government took a 10-year lease of part of the 50 Lonsdale Street, Melbourne development, and a 15-year lease of part of the Southern Cross development in Exhibition Street, Melbourne. Figure 2.11A shows details of the leased accommodation in these buildings. As well as the lease commitments, the government will also pay the fit-out costs associated with these 2 new leases, estimated at $100 million.

FIGURE 2.11A: DETAILS OF MAJOR NEW ACCOMMODATION ARRANGEMENTS

Agency	Address	Area (m^2)	Start date	Lease term (years)	Estimated lease cost over lease term ($million) (a)
Department of Human Services	Casselden Place development, 50 Lonsdale Street	50 000	1.11.05	10	187
Department of Justice	Southern Cross development, Exhibition Street	23 000	1.7.06	15	150
Department of Innovation, Industry and Regional Development	Southern Cross development, Exhibition Street	22 000	1.7.06	15	143
State Revenue Office	Southern Cross development, Exhibition Street	5 000	1.7.06	15	32

(a) Using a discount rate of 5 per cent.

In assessing whether the consolidation of departmental accommodation was well managed, we examined if:

- a clear and comprehensive business case was developed
- government procurement, accommodation and construction guidelines were followed to select the sites
- risk management strategies were implemented to address transitional risks associated with the current lease agreements expiring and the commencement of the new lease agreements.

2.11.2 Was a clear and comprehensive business case developed?

The market research conducted in early 2001 was used to develop the City Accommodation Plan. This was the business case for the consolidation of departmental accommodation.

The research showed that, taking into account the expiry dates of current departmental leases, the government's best opportunity to consolidate and upgrade departmental accommodation would be between 2004 and 2006. In doing so:

- the risk of rent increases for "A" class accommodation would be minimised
- departments would save by sharing infrastructure, improving workplace coordination by having agency staff in one location and also improving productivity.

The research also showed that there were a number of sites available that would suit the government's purposes, at good commercial rates.

The research outlined the leasing options for various parts within the central business district (CBD). However, construction was not considered as an alternative to leasing.

The government's *Partnership Victoria* policy requires private proposals for public infrastructure and ancillary services to be assessed against a public sector comparator. This is an estimate of what it would cost the public sector to provide the same infrastructure or services, in this case, the required office space.

The public sector comparator was not used in this instance. The VGPG did not see construction as a viable alternative, considering that governments in Australia and overseas generally do not build their own office accommodation due to the upfront investment necessary and ongoing maintenance needs and costs. In addition, the VGPG considered that the rental option would provide the best alternative given that the Melbourne accommodation market was mature and competitive.

Conclusion

The business case for the public sector accommodation consolidation was comprehensive and adequately outlined the leasing options.

2.11.3 Were government guidelines followed?

At the expressions of interest stage of the procurement process, all sites in the CBD (including Docklands and the inner fringe) were considered. The government then exercised its right under the terms of the expressions of interest and only short-listed parties in the eastern part of the CBD, within close proximity to other government departments. This greatly reduced the potential sites.

In late 2001, a request for tender was issued. The tender process followed government procurement, accommodation and construction guidelines. These included the requirement to develop comprehensive plans, the appointment of specialist staff to assess certain aspects of the tender and the appointment of a probity auditor.

Conclusion

All tenders were evaluated against established and consistent criteria, and evaluations were well documented. The government's decision was in line with the tender evaluation committee's rankings.

2.11.4 Were appropriate risk management plans in place?

At the time of preparing this report, the VGPG had begun developing strategies to manage the impact of any construction delays for the 2 new accommodation sites that may prevent the respective departments from relocating within the scheduled time frames. The major part of these strategies includes arranging lease buffers under the existing lease agreements to provide the respective departments with the option to extend the lease beyond the expiry dates, without incurring penalty costs.

Conclusion

The VGPG is taking appropriate steps to manage the transitional risks associated with the new lease accommodation arrangements.

2.12 How useful are local councils' internal financial reports?

2.12.1 Audit conclusions

The internal financial reports produced by local councils examined as part of this audit were considered adequate for meeting the basic financial responsibilities of managers and councillors. However, they did not adequately provide information to enable recipients to meet their full range of financial responsibilities.

Internal financial reports of most of the councils examined did not provide information about whether council resources were being managed efficiently and effectively, whether financial exposures were being minimised, or whether services were being provided at an appropriate cost and quality.

Almost all councils examined did not integrate financial and non-financial (operational) data in any useful way in either operational reports or internal financial reports. As a result, the explanation of variances from approved budgets provided little real insight into the effect of these variances on the operations and performance of councils.

The internal reporting processes and financial information systems in most councils were not designed to efficiently link financial and operational information and as a result did not support the strategic management of the organisation.

In many instances the way that financial information was presented inhibited the readers of the reports from gaining a clear understanding of their meaning.

2.12.2 Background

The *Local Government Act 1989* sets out how councils must budget and report on their financial performance and position to their ratepayers and to the government. The Act requires councils to produce annual financial statements, and to provide quarterly statements of revenue and expenditure to councillors.

The Act also requires councils to:

- use their resources efficiently and effectively
- manage financial risks prudently (such as risks relating to their level of debt, their commercial activities, their management and maintenance of assets, and their management of current and future liabilities)
- make decisions and take action having regard to the financial consequences for future generations.

To be able to fulfil the above requirements of the Act, councils need to:

- establish information systems that capture and report accurate and reliable financial and operational data
- establish controls that safeguard their financial and non-financial assets
- establish realistic financial and resource plans (budgets)
- track progress and resource consumption against these plans
- manage financial exposures associated with debt and other liabilities
- measure and monitor the resources used in service delivery
- measure and monitor the cost and quality of services, at key stages of the service delivery process.

All councils produce internal financial reports (or management reports) that assist managers to monitor performance in their area of accountability and fulfil their financial responsibilities.

These reports are not necessarily the same as the external financial statements produced by the council, because they are produced for a different purpose. There is no legislation or widely accepted practice about the content or look of internal financial reports. Councils can prepare internal financial reports with whatever content and look they think best suits the needs of managers and those governing the organisation.

Audit scope

The audit examined the monthly internal financial reports to councillors, chief executive officers and senior managers of 10 councils. The audit did not examine the quarterly or annual financial statements required by the Act.

The 10 councils were 3 inner metropolitan councils (Melbourne, Stonnington and Bayside), one outer metropolitan council (Greater Dandenong), 2 regional cities (Greater Bendigo and Latrobe) one large shire (Surf Coast) and 3 small shires (Golden Plains, Mount Alexander and Indigo).

2.12.3 What information was in the reports?

In assessing whether financial reports were useful, we examined the information contained in them and asked if it was:

- relevant (meeting users' needs)
- reliable (accurate and a faithful reflection of the actual transactions that had occurred and of the current state of affairs)
- timely (provided as soon as possible after transactions occurred).

In evaluating these criteria, we considered the following attributes:

- basis of preparation
- basis of presentation
- reporting and analysis of variances
- use of non-financial information
- use of financial performance indicators
- reporting of full costs
- reporting on commercial operations.

Basis of preparation of reports

Four of the 10 councils examined (Melbourne, Stonington, Greater Bendigo and Greater Dandenong) produced full accrual-based reports each month. The remaining councils produced partial accrual reports, although the extent of accrual information produced varied widely.

"Partial accrual" reports in some councils were not updated during the year to include depreciation and employee leave entitlements (which are major expenditure items). They frequently recognised creditors when an invoice was received, rather than when goods or services were provided. Income and expenditure prepayments, and accruals for items such as interest earned on investments, interest payable on loans, salaries and utilities, were determined only at year-end. Capital works expenditure was recognised at the time of recording payments made, rather than on the basis of actual work completed. Non-cash capital works contributions by developers were only recognised at year-end.

Councils that prepared reports on a partial accrual basis did not provide timely information about the effects of financial transactions and events as they occurred. Because significant changes in some assets and liabilities were not reported until the end of the year, managers and councillors did not know the effects of some of their decisions on council's performance and future financial position until they were provided with the annual financial statements.

Basis of presentation of reports

All the councils examined produced monthly reports of revenue and expenditure for executive managers. These reports are also generally made available to councillors, although the Act only requires such reports to be provided quarterly to councillors.

Two councils (Golden Plains and Indigo) only presented income and expenditure on a rates determination basis. This shows the extent to which the year's rates and other budgeted receipts , plus net transfers from prior year reserves, will cover this year's operating and capital expenditures.

The other councils reported on an operating statement basis (although Melbourne also included rate determination statements). This is consistent with the basis of presentation mandated by accounting standards for external reporting. Some councils (Bayside, Stonnington, Greater Bendigo, Surf Coast and Mount Alexander) also reconciled the operating statement result to the rates determination result.

There is often a significant difference between the “bottom line” result on a rate determination basis and that computed on an operating basis. Reporting on a rates determination basis shows only whether the council will have enough funds to meet its costs in the current year. Reporting on an operating statement basis shows if the council is setting and achieving operating revenue targets to meet its full costs. Reporting revenue and expenditure solely on a rate determination basis means that managers and councillors only see a long-term picture of the council’s financial health when they see the end-of-year financial statements.

All councils except Golden Plains also produced a separate capital income and expenditure report. Typically, this report provided summary and detailed reporting of capital income and capital expenditure either by individual project, by asset category or by capital expense category.

Seven councils provided a “balance sheet” with information about all asset and liability balances (Bayside, Golden Plains and Indigo did not). For those councils using a partial accrual basis of preparation, these balance sheets are of less use as they are either incomplete and/or not all reported balances are measured reliably.

Half of the councils examined did not produce a separate report of operating, capital or financing cash flows or on their cash position.

Reporting and analysis of variances

All councils allocated their annual income and expenditure budgets monthly. They then report on variances between the monthly budgeted figure and the actual amount spent or received.

Rather than simply expecting to receive one-twelfth of income, and make one-twelfth of payments each month all councils, except Golden Plains, set their monthly budgets using past experience, or what they expect would happen during the year, as a guide. Most councils also reviewed and updated their annual and monthly budgets at least quarterly after comparing the actual result for the year-to-date with the original year-to-date budget.

Council internal financial reports almost always show how much variances have put year-to-date revenue and expenditure over or under target. Greater Dandenong showed the variance between the income and expenditure budget for the month and the actual result for that month, but did not explain the variance.

Variances are regularly attributed to “timing differences”, and reports often noted whether a variance was likely to be permanent, or would be offset or recovered by the end of the year.

Reporting is more meaningful and useful if budgets are based on realistic assumptions, because variances from budgets are true indications of the consequences of changes in underlying conditions. Variances are not true indications of unexpected events if the allocation of budgets is unrealistic. Some councils need to improve how they estimate their income and expenditure by month, especially councils in the habit of attributing the majority of variances solely to differences between the expected and actual timing of receipts and payments.

Most councils included their full year income and expenditure budgets in their monthly financial reports. Most reports also forecast the expected year-end position. These forecasts were generally updated quarterly or 6-monthly, although some councils required their managers to update forecasts each month. While some reports showed the variance between the full year budget and current forecast, there was generally little or no explanation of the variance.

There was limited explanation and reporting of variances between actual and budgeted cash flows, and asset and liability balances by councils. Councils that reported asset and liability balances generally reported the movement between either the opening balance at the beginning of the financial year or the movement from the previous month’s balance, but did not explain the reasons for this movement or provide an analysis of the major components of each balance.

Use of non-financial information

Managers and councillors also receive non-financial reports about council operations. However, there was little linkage between internal financial reports and operational reports. Internal financial reports provided little or no data about the effects of variances on the operations of councils. Equally, operational reports did not explain the financial impacts of not meeting operational targets[18]. For example, there were instances where budgets had been met (or underspent) but the operational targets associated with the expenditure had not been met. This was seen by looking at the financial and operational reports together, but not seen only by looking at either report. This lack of integration of financial and non-financial reporting was seen in all councils, except Stonnington.

Stonnington has integrated financial and operational data using "balanced scorecard" reporting for each organisational unit. This shows targets and actual results for a range of cost, quality, responsiveness and effectiveness measures. For example, one cost measure is the cost per lift in waste collection, which combines financial and non-financial data into a single measure.

The CEO of Stonnington explained their approach as one whereby their "culture changes to managing rather than spending".

Looking only at financial results, and not at operational results as well, gives an incomplete and potentially misleading picture of council performance. While some councils (e.g. Bayside, Greater Dandenong, Latrobe) routinely report on operational performance, the separate reporting of operational and financial performance makes it difficult for councillors and managers to see the whole picture.

Use of financial performance indicators

Councils' emphasis on analysing year-to-date variances indicates that they are mainly concerned with meeting their current year revenue and expenditure targets, and with adjusting forecasts or taking remedial action if targets are not being met. There is little emphasis on managing balance sheets. For example, most councils do not have targets for, or report on, liquidity, working capital, return on investment or the level of debt.

Surf Coast uses financial ratios to measure and report on current and expected future financial performance as part of its periodic reporting against its Strategic Resource Plan.

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[18] While the scope of the audit did not extend to non-financial information in operational reports, we did examine these reports in some councils. It was clear in those instances that operational and financial data were not integrated.

Some councils reported the percentage of rates collected and percentages of overdue trade debtors by age of debt. Two councils (Melbourne and Latrobe) also produced an investment performance analysis by comparing average interest revenue with bank reference rates. Only one council reported the ratio of current assets to current liabilities.

It may be argued that financial ratios simply reflect the numbers in the financial statements. However, when represented as ratios, the inter-relationship between various account balances provides insights into the financial health and long-term sustainability of council operations. Their absence in financial reporting indicates councils are not regularly tracking these key indicators and may not have established strategies for ensuring long-term financial health and sustainability of operations.

Reporting of full costs

Almost all councils reported revenue and expenditure by organisational unit or program, according to how they allocated responsibility for budgets.

Many councils fully allocated indirect costs to programs or organisational units by using arbitrary measures (such as full-time staff employed by a program or the number of computers used). None of the councils examined had adopted activity-based costing methodologies for the allocation or attribution of all costs or for internal financial reporting.

All councils (except Greater Dandenong) that reported by program allocated to the program the depreciation of the assets used by it. Two councils (Surf Coast and Latrobe) allocated to programs and units direct costs (such as plant hire) and indirect costs (such as corporate overheads) through internal charging. Some councils did not allocate all indirect costs (such as corporate services).

Managers know the true cost of delivering their programs, when direct and indirect costs are fully allocated to their unit or program. This information is also needed for decisions about the best mix of labour and capital, and the level of corporate support used. Councils that do not fully calculate and allocate costs are not providing the useful information needed by managers to make best use of their resources.

Detailed information on the cost per unit of output delivered is not routinely being produced. Councils are therefore not aware of true cost per unit of many of the services they provide.

Many councils were funded according to the cost of producing a unit of output for some services and most charged for these services on a per unit basis (whether time-based or fixed fee-for-service). In the absence of full activity-costed data councils were not able to readily determine the net cost of each of the services they provide, nor were they able to fully understand how each of the activities undertaken in delivering a service drives the cost of that service. This makes it difficult to form judgments and make informed decisions on the actual and desired level of subsidisation of services. It also makes it difficult to reduce costs by isolating and managing the factors that drive costs.

Progression to budgeting and reporting on a per unit of output basis, using activity-based costing, would be the next logical step for councils which have established budgeting and reporting on a program or organisational unit basis. This information will enhance councils' abilities to analyse processes and activities in terms of their contribution to the cost of outputs, to budget more accurately, to benchmark the cost of in-house service delivery with external suppliers, and to better analyse the net cost implications of proposals to take on new services or to divest themselves of existing services.

Reporting on commercial operations

While most councils had minor areas of activity about which they did not report, Indigo and Mount Alexander had significant council operations that were not included in management reports or in consolidated reports to council throughout the year.

Indigo Way Services is the business arm of Indigo Shire. It provides services to the council and to other organisations. MAETS (Mount Alexander employment and training service) is a not-for-profit organisation established by the shire. Both operations compete with the private sector and both have significant revenue and expenditure.

Neither council included financial information about these organisations in council internal reports, claiming the need to maintain confidentiality for commercial and competitive reasons, which were not explained. These operations prepare their own financial reports, but the full council did not consider these. The results of both operations were consolidated in the annual financial statements of the councils.

Claims that financial information should not be disclosed internally or to council for "commercial and competitive" reasons need to be considered in light of the law that requires a council to adequately manage the financial risks of its entrepreneurial activities. Among these are the risks that such activities will make losses that will have to be met from council's financial reserves, and that council will frequently guarantee any liabilities incurred by such activities. Councillors and managers need to ensure they are getting the information necessary to comply with the law.

Financial management capability of councils

In general, large and well resourced councils produced the better internal financial reports. The reports of small shire councils were not nearly as good as those of larger councils. These smaller councils were more likely to have older systems that could not produce accrual-based reports, and historically had fewer and less experienced people working in finance and on internal financial reports.

The current focus of reports to managers and councillors is on short-term financial performance. Organisations at the "control level" of financial management[19] commonly report with this focus. The typical situation in an organisation with control level capability is that:

- the finance department does traditional accounting functions (processing transactions, bookkeeping and general accounting) and administer system controls to ensure that data is complete, accurate and reliable
- operational managers contribute to financial plans then monitor resource use against the plans
- information systems produce financial data that is backward looking on the cost of inputs
- some ad hoc analysis (such as of the costs of processes) is done, but data is usually fragmented and fairly inaccessible, making the job of analysis time-consuming and laborious.

We found this situation in most of the councils we examined.

The next level of financial capability is the "information" level. The typical situation of an organisation with information level capability is that:

- senior managers understand and emphasise the importance of financial management
- the cost and quality of outputs and the use of resources are measured and monitored

[19] The concept of levels of financial management capability was developed in 1999 by the Office of the Auditor-General, Canada.

- the finance department is more concerned about providing useful information (such as about costs) to operational managers, on which they can base decisions
- operational managers understand and accept all their financial management responsibilities
- information systems provide consistent and comparable financial and operational information that can be used to develop performance indicators.

By the standards of the financial management capability model, few councils examined had progressed beyond the control level to the information level. However, some councils showed some attributes of the information level. The challenge facing these councils was to better integrate financial and operational reporting, to reduce the cost of acquiring data and to increase data consistency.

Only one council (Stonnington) had the attributes of the next level in the model, the “managed” level. At this level, organisations integrate financial and non-financial information to gain the best possible results for the available resources. The typical situation in an organisation with managed level capability is that:

- financial and non-financial systems are integrated
- information is available on the relative costs of different approaches together with information on variables that affect the quality and level of service
- the finance area forms part of the decision support process by developing simulations and undertaking sensitivity analysis through manipulating variables to see how they affect results.

Conclusions

The internal financial reports produced by most councils examined are not providing all the information that managers and councillors need to effectively fulfil their legal and representative responsibilities. It is likely that the observations made for the councils examined in this audit will be equally relevant to the remaining Victorian municipal councils.

All councils need, as a priority, to review their financial management capabilities. They need to identify any shortcomings and have a fully-funded plan to address them. Specifically, they need:

- financial and non-financial information systems to collect and report the data necessary to effectively manage
- enough experienced finance people to operate an “information level” financial management capability
- training for senior managers and councillors about their financial management responsibilities.

Recommendations

22. **That councils that currently produce internal financial reports on a partial accrual basis move to reporting on a full accrual basis as soon as practicable, and no later than the end of the next financial year.**
23. **That councils review their financial management capabilities, identify shortcomings, and develop and implement fully-funded plans to address them.**

2.12.4 Were reports well presented?

In assessing whether the way information is reported aids understanding, we examined if the layout of reports, and the way data was aggregated and displayed, enabled readers to readily comprehend the meaning of the reported data.

Level of detail

In almost all the reports we examined, financial information was presented as numbers in tables.

The level of detail varied between councils. Some councils' internal financial reports had general ledger account level detail. This is more detail than usually provided in financial statements, and some of these reports were more than 50 pages.

Most councils did not provide high-level summaries of financial results and financial ratios. Greater Dandenong, which provided a single page report to councillors and senior managers of key financial results, was an exception.

Most councils reported on variances of more than $10 000 to $20 000, which are relatively small amounts. This meant that most reports had a narrative explaining variances for most items in each report. In some councils, a narrative was provided for all variances, with no distinction between major and minor variances. Major variances or other exceptional results were not highlighted visually (such as by using icons or different coloured text).

Several report users, particularly councillors, felt that the way that their council reported and displayed variances did not make clear which variances were really important to the council.

Use of visual aids

Most council internal financial reports did not use charts and graphs. Councils that did include graphs in their reports only used them for particular and selected data (such as rate collection patterns, or interest earned). Some reports used very small type sizes, inappropriate types of graphs and confusing layout, which inhibited rather than helped understanding.

Most internal financial reports concentrated on the position as at when the report was produced. Most councils provided little or no information (either as tables or graphs) about past and future trends, patterns within the current year, or made comparisons with the same period in the previous year. Rather, reports gave readers a "snapshot" taken at one point in time.

Users of reports who were interviewed during the audit (and particularly councillors) wanted more graphical presentation of data, including trend data. To quote one councillor, "Reports provide a good guide to the position of the council at a point in time. Ideally [they] should be able to be used for future decision making, showing trends that are forming, and to see the performance of managers. They should be more than just a mechanism for tracking the budget".

Conclusions

All councils need to improve how their internal financial reports are presented.

Most readers would struggle to gain a quick overview of the financial performance and position of a council from highly-detailed tables of figures. Internal financial reports of this type could obscure important information about variances.

If reports only give a snapshot at one point in time, readers will struggle to see good or bad trends and patterns in important items such as the level of rate collection, capital expenditure or the level of debt.

Graphs and charts can be powerful visual aids to understanding trends and patterns, and improve the usefulness of financial reports. However, they are scarcely being used in council's internal financial reports.

Poor design and layout in some cases could reduce understanding and interpretation of the information in reports.

Some needed improvements are:

- better matching the depth of information provided to the needs of the managers and councillors who must use the information
- greater use of high-level summary data to highlight important financial results
- greater use of financial ratios, trends and patterns to help readers interpret and understand financial results

- more graphs and charts that best present the particular information, and that are well designed
- variance thresholds that are significant in terms of the budget being managed, and greater use of visual aids to highlight significant variances.

Recommendation

24. That all councils review the format and layout of their internal financial reports, in conjunction with the users of their reports.

RESPONSE by Bayside City Council

Generally, Bayside concur with the report. Bayside is proposing to move to full accrual effective for the 2004-05 financial year.

RESPONSE by Golden Plains Shire Council

Basis of presentation

Up until the recent changes to the Local Government Act, reporting on a rate determination basis was the accepted industry practice and councillors found this format easy to understand.

In relation to capital expenditure, council's rate determination reports included capital expenditure and the sources of funding.

Council does not currently provide monthly balance sheets. This will be addressed when we implement the requirements of the Democratic Reform Act. Resources have limited our capacity to deliver such comprehensive reports in the past.

Analysis of variances

Councillors have preferred to see actual year-to-date figures compared with annual budgets, rather than monthly year-to-date budgets. Any variances beyond a year-to-date percentage are explained in the report to council. Our current resources have limited our capacity to do monthly profiling.

General comments

The report does not appear to take into account the limited resources of rural shires and paints the better resourced councils (i.e., metropolitan councils) in a better light. We would like to see some commentary about the excellent financial health of our council, i.e. our low debt, low rates, low staff numbers, excellent customer satisfaction rating (best again in 2004 of small council grouping less than 26 000 population), excellent working capital ratio, operating surpluses, low staff turnover etc.

While acknowledging that there is room for improvement in our financial reporting, we are still one of the best performing councils in terms of financial management, financial health and service delivery to our communities. At Golden Plains, we have tried to focus our limited resources on outputs to the community, and to keep administrative costs to a bare minimum in spite of the ever increasing financial management responsibilities placed on us.

RESPONSE by Greater Dandenong City Council

Basis of preparation of reports

Agreed. Financial reports should be based on full accrual principles, which CGD does.

Integration of Financial and Operating reports (use of non-financial data)

Council agrees with audit recommendations.

Analysis of variances

Agreed in principle. Councils should report on significant movements in their balance sheets and movement in cash, in addition to revenue and expenses.

Financial performance indicators

Agree in principle. CGD agrees that ratios can be useful in understanding the financial health and long term sustainability of council operations. However, those ratios may not be relevant for reporting on a monthly basis, and must be used in conjunction with other relevant indicators.

Cost allocation and reporting

Partially agree. Council agrees that program managers need to understand the full cost of their operations, including unit costs per service. Fee levels for services should be based on all costs, direct and indirect, incurred by these programs.

Council does not fully agree that indirect costs should be allocated monthly, specially if they are done on an arbitrary basis. Full absorption costing techniques (alluded to in the report) may not be relevant to most council operations.

Council agrees that some degree of activity based costing should be applied in determining key cost drivers of business.

Reporting on commercial operations

CGD agrees with the report.

Financial management capability of councils

CGD agrees with audit recommendations that councils finance department should focus on providing quality information at all levels of council.

Presentation of reports

Agree with recommendations. CGD will review its presentation of the financial report to include charts and graphs as a means of readily identifying trends in income and expenditure. Any proposed amendments will be done commencing the new financial year.

RESPONSE by Indigo Shire Council

Basis of Preparation of Reports

Agreed, but would require additional accounting resources to prepare on a monthly basis.

Basis of presentation of reports

Agreed.

Analysis of variances

Agreed, managers need to be held accountable for projects that aren't completed in line with the account profiles as this affects cash forecasting and interest income.

Use of non-financial data

Agreed, there needs to be closer linkage and this is being facilitated by standard statements, however, it is no use reporting KPIs such as working capital if councils aren't preparing full accrual accounts on a monthly basis.

Cost allocations

Agree. Our business arm has been set up as a contractor for this purpose and allocates all corporate overheads across its business units. They, and private contractors perform all council work. Council is invoiced for these services so we would argue that we are fully aware of what it costs to run our services.

Reporting on commercial operations

Agreed. Fully consolidated accounting on a quarterly basis is currently under review.

Financial management capability of councils

Agreed, and that is the challenge but this is mainly a resourcing issue, there is a clear linkage between large councils and the number of staff at their disposal and the capital investment in finance systems of a large council versus a small council.

Recommendations

We will soon be implementing a new accounting package. It will be the aim that council will move to full accrual accounting as per the recommendation.

Level of detail

Agreed, happy to reduce volume that goes to council, however, by giving them all the information we are seen as being open and not "hiding" results.

Use of visual aids

Agreed, we use some graphs and it is easier for the majority of councillors who are not trained in financial management.

Recommendation

Agreed.

RESPONSE by Latrobe City Council

Latrobe acknowledges that it needs to continue to invest time and resources into continuing its development of internal financial reports. We are currently a significant way through implementing many changes to our internal financial reports, which already incorporate operational performance reporting. Many of the issues identified in the report are currently being addressed, or are planned to be addressed during the next financial year.

Specifically, Latrobe City will be working, over the next financial year, towards budgeting and reporting on an accrual basis - accruing on a quarterly basis only, due to limited staff resources at this point in time.

RESPONSE by Mount Alexander Shire Council

Summary

No recognition is made of those councils that have identified the need to improve internal financial reporting and are doing something about it. That is, the implementation of new financial software, which will allow council to move towards accrual accounting, and improve financial reporting.

Basis of preparation of reports

Mount Alexander Shire has consistently included depreciation in all reporting. With regard to the accrual of employee entitlements, Mount Alexander Shire charges an on-cost on all labour payments which includes an allowance for all employee entitlements including annual leave, long service leave and leave loading. In effect, the accrual of leave entitlements is included in all operating statement reports.

Since your visit to council's offices, and as we indicated upgrading of our system was imminent, new financial software has been implemented and council will now be reporting on a basis very close to full accrual basis. That is, depreciation, leave and creditor purchases (via full committal accounting) will be included.

With the recognition of expenses on ordering, rather than on payment of invoice, council will now be recognising capital works much earlier and should achieve a result very close to recognition at the time of works being carried out.

Use of non-financial data

Council agrees that the usefulness of internal reporting would improve dramatically with the inclusion of non-financial data such as services provided. As noted in our discussions, many council services can only be effectively managed when you combine the financial and non-financial results.

Financial performance indicators

While council supports the internal use of financial performance indictors, it would resist any further attempts to enforce KPI reporting from above. Financial indicators are best managed on a council-by-council basis so that their relevance and cost of producing are reasonable.

Cost allocation and reporting

Council fully supports your results with regard to determining activity unit costs. Only when these items are determined can council effectively manage its services and determine whether these services should or should not be provided. This council will be moving to full activity unit costs over the coming 12 months.

Reporting on commercial operations

Your comments are noted. Mount Alexander Shire is working towards inclusion of its commercial operations and has set early July 2004 as the target for consolidation of the MAETS accounts within council's financial system. This operation will then be included in council's normal internal reporting. Council's former system could not practically accommodate the needs of the commercial operation.

Financial management capability

Larger, more well resourced councils have an inherent advantage on smaller, under resourced councils when it comes to capacity. I would dispute the word capability. Most smaller councils would dearly like to be able to provide best practice reporting. What they most lack is the resources (or capacity) to provide this reporting.

Your comments regarding outdated older systems are very true. It is normally a long, involved process for smaller councils to change their financial systems.

I'm sure all councils would be, and are working towards, improving their internal reporting systems.

Conclusion (information included in reports)

Mount Alexander Shire agrees that internal financial reports produced by most councils are not providing all the information that managers and councillors need to effectively manage their responsibilities and recognised the limitations facing it some months ago. Towards this end, a new financial system has recently been implemented; operational deliverable targets have included in the 2004-05 budget (against which operational reporting will be required) and we will be implementing a full activity unit cost regime throughout the organisation in the coming 12 months.

Recommendations

Council fully supports your recommendations and believes these should be implemented within the financial constraints that all councils suffer.

Use of visual aids

Your report is accurate in that Mount Alexander Shire's current internal reports concentrate on the position as and when the report was produced. This council will be implementing reporting with regard to past and future trends as unit costs are determined. This sort of reporting lends itself to graphical presentation and where appropriate, this method is supported.

Conclusions (report presentation)

Council supports your conclusions and needed improvements, and will work (within our capacity) to implement these improvements.

Council's final comments

Your recommendation that all councils review the format and layout of their internal financial reports, in conjunction with the users of their reports is too simplistic. This pre-supposes that readers of internal reports have the capacity and ability to fully appreciate and/or understand what is being presented.

This council in particular will also be investigating links between our external reporting to the community and internal reports. As for internal users, external users of our reports can also significantly benefit from non-financial reporting.

In conclusion, I cannot emphasise enough that some small councils, and in particular Mount Alexander Shire, are working towards improved internal financial reporting, including full accrual reporting.

RESPONSE by Surfcoast Shire Council

Council accepts that there is considerable scope to improve its financial reporting, particularly in the areas of timeliness, application of a more complete accrual process and the introduction of performance data that may or may not be financial in nature. The stronger linkage of financial and operational reporting, as noted in the review, is already a direction that has been adopted by council.

Council accepts the notion of moving its financial reporting from a "scorekeeper" role into the wider realm of informing future directions. The full application of activity-based costing is, however, not fully supported at this point in time given doubts over the cost of implementing such systems compared with the benefits received.

The issue of financial resources remains a challenge for this council as it strives to run as efficiently as possible and to direct as much resources as practicable into much needed infrastructure works. While council has a fraction of the resources available to Melbourne metropolitan councils, it is of the view that the standard of its financial reporting is relatively high and heading in the directions recommended in the report, albeit perhaps at a slower development pace than desired.

In respect of the training recommended, it is held that officers and councillors at Surf Coast Shire are already acutely aware of their financial management responsibilities given recent history. Whether this training would, however, be of benefit to the industry is difficult to comment on. Certainly the highlighting of industry best-practice examples is a positive step and council will be seeking examples of financial reporting from Stonnington.

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