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Victorian Auditor-General's Office

Applying the High Value High Risk Process to Unsolicited Proposals

Tabled 19 August 2015

The Auditor-General provides assurance to Parliament on the accountability and performance of the Victorian Public Sector. The Auditor-General conducts financial audits and performance audits, and reports on the results of these audits to Parliament.

On 19 August 2015, the Auditor-General tabled his performance audit report, Applying the High Value High Risk Process to Unsolicited Proposals.

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Overview

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- The High Value High Risk (HVHR) assessments are critical to informing decisions on high value unsolicited proposals.

- Audit found—from examining two major proposals:

    - Department of Treasury and Finance (DTF) has been inconsistent in applying the HVHR process.

    - Some strengths but also key weaknesses—scrutinising benefits, assessing funding alternatives and stakeholder engagement.

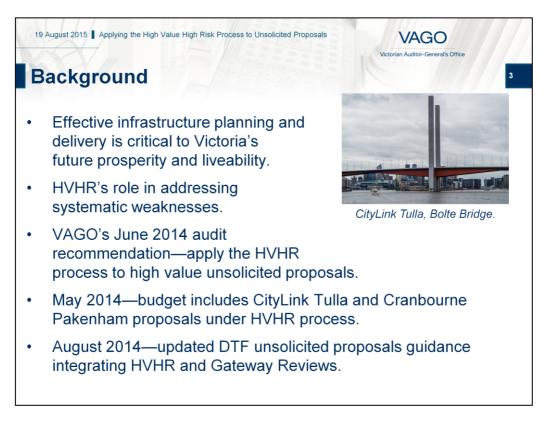- Need to improve the guidance, its application and public sector's role in assessing proposals.

The High Value High Risk, or HVHR, assessments were critical inputs to government decisions for two major unsolicited proposals, which lead to:

The approval of the final offer for the CityLink-Tulla Widening Project in April 2015, and

The rejection of the interim offer for the Cranbourne-Pakenham Rail Corridor project in March 2015.

We found that the Department of Treasury and Finance, or DTF, had not consistently applied the HVHR process to the proposals examined in this audit.

This audit has highlighted weaknesses in unsolicited proposal guidance and its application to inform government decisions. These need to be addressed.

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Background

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- Effective infrastructure planning and delivery is critical to Victoria's future prosperity and liveability.

- HVHR's role in addressing systematic weaknesses.

- VAGO's June 2014 audit recommendation—apply the HVHR process to high value unsolicited proposals.

- May 2014—budget includes CityLink Tulla and Cranbourne Pakenham proposals under HVHR process.

- August 2014—updated DTF unsolicited proposals guidance integrating HVHR and Gateway Reviews.

CityLink Tulla, Bolte Bridge.

Well-planned, timely and high-quality infrastructure is essential to shaping Victoria to be prosperous, liveable and sustainable.

The HVHR process was introduced to address systematic weaknesses undermining agencies' performance in developing and delivering major projects. It does this by providing more rigorous advice to government on projects' deliverability, including whether they are likely to achieve intended benefits on time and within budget.

VAGO's June 2014 audit—*Impact of the Increased Scrutiny of High Value High Risk Projects*— recommended extending the HVHR process to cover high value unsolicited proposals.

An unsolicited proposal involves the private sector approaching government to seek support to build infrastructure or provide services. Unsolicited proposals are now known as market-led proposals.

The May 2014 Budget included the unsolicited proposals for the $1.3 billion CityLink Tullamarine Widening, and the $2.5 billion Cranbourne Pakenham Rail Corridor, under the HVHR process.

DTF updated the unsolicited proposals guidance to incorporate the HVHR process in August 2014. It refined the guidance further in February 2015 and renamed it Market-Led Proposals Interim Guideline.

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Focus of this audit

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Key areas examined
- DTF's advice about if and how to apply HVHR.
- Examining how well HVHR had been applied to two major unsolicited proposals to inform government decisions.

Audit scope
- Application of the HVHR process examined for:
  - CityLink Tulla Widening project—approved April 2015
  - Cranbourne-Pakenham Rail Corridor—rejected March 2015
- DTF
- Department of Economic Development, Jobs, Transport & Resources (DEDJTR)
- VicRoads
- Public Transport Victoria

The audit examined:

DTF's advice to government about how to apply the HVHR process to unsolicited proposals, and

the application of the HVHR process to the CityLink Tulla and Cranbourne Pakenham proposals.

We assessed the work of DTF, the Department of Economic Development, Jobs, Transport and Resources, or DEDJTR, VicRoads and Public Transport Victoria, which informed the HVHR assessments and advice to government.

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Integrating HVHR and unsolicited proposal processes

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- DTF swiftly implemented VAGO's June 2014 recommendation, but no comprehensive or effective basis to apply HVHR.
- February 2015 guidelines:
  - Greater emphasis on developing project benefits
  - But lack of clarity about how full set of information expected for a public sector investment will be generated.
- Proposals unlikely to fully inform HVHR assessment.

What needs to change:
- **DTF needs to advise government how to fix these deficiencies in the guidance.**

Following VAGO's June 2014 audit recommendation, DTF advised government to apply the HVHR process to unsolicited proposals that were of high value or high risk.

However, the amended August 2014 guidance and DTF's supporting analysis did not provide a comprehensive and effective basis for applying the HVHR process to these proposals.

The updated February 2015 guidelines improved the guidance by requiring a greater emphasis on the proponent articulating the benefits of value to government, and an increased scrutiny of these by government agencies. However, there remains a lack of clarity about how this information will be generated and who is responsible for doing this.

The guidelines are unlikely to produce proposals that provide the clarity and depth of information needed to fully inform an HVHR assessment.

Our first recommendation calls on DTF to address these deficiencies and it is critical that DTF acts on this recommendation.

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CityLink Tulla Widening project

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- Partly or fully assured costs, time lines, risks, governance and project management.

- Significant gaps remain:
  - Scrutiny of project benefits and associated risks
  - Absence of a full funding analysis
  - Weakness in approach to stakeholder engagement

*CityLink Tulla motorway.
Photograph courtesy of VicRoads.*

What needs to change:
- **Improve quality assurance and scrutiny of benefits and modelling, better assessment of funding, greater transparency and engagement.**
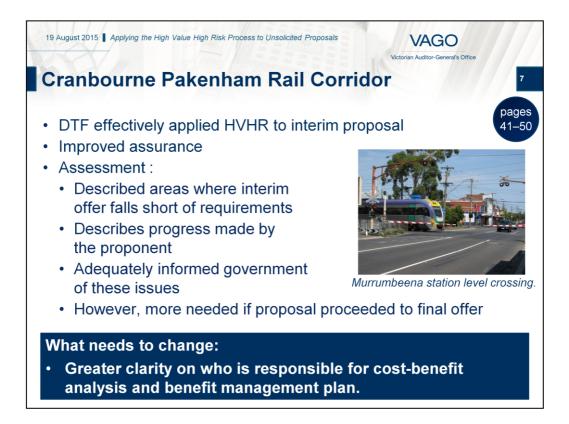
We found that applying the HVHR process to the CityLink Tulla proposal did not result in the information underpinning the project's approval meeting DTF's better practice guidelines. These gaps are significant and mean that government decisions on CityLink Tulla were not adequately informed.

 The additional HVHR scrutiny partly or fully assured the costs, time lines, risks, governance and project management, and procurement of CityLink Tulla.

However, there was weak assurance about the deliverability of the proposal's benefits, inadequate assessment of alternative funding options and inadequate engagement with stakeholders about the impacts.

Agencies need to address these issues by improving the level of scrutiny applied to verifying the benefits, better assessing the funding options and improving the level of transparency and stakeholder engagement.

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Cranbourne Pakenham Rail Corridor

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- DTF effectively applied HVHR to interim proposal
- Improved assurance
- Assessment :
  - Described areas where interim offer falls short of requirements
  - Describes progress made by the proponent
  - Adequately informed government of these issues
- However, more needed if proposal proceeded to final offer

Murrumbeena station level crossing.

What needs to change:
- **Greater clarity on who is responsible for cost-benefit analysis and benefit management plan.**

The application of the HVHR process to the Cranbourne Pakenham interim offer was much better.

The assessment highlighted areas where the interim offer fell short of meeting the HVHR deliverability criteria, and also described the progress made by the proponent.

For this proposal the HVHR assessment clearly fulfilled its role of informing government's decision about whether to proceed beyond the interim offer to the development of a final offer.

The existence of a long-term plan for the corridor defining the likely capacity requirements greatly helped agencies assess the extent to which the interim offer would address government policy objectives.

However, it remains unclear how essential information needed to decide on a final offer, such as a cost-benefit analysis and benefit management plan, would have been addressed if the proposal had proceeded.
The greater clarity required should be addressed by DTF when it addresses the deficiencies referred to in recommendation 1.

Recommendations

		Accept
1	That DTF: • addresses deficiencies of information to inform HVHR assessments • reporting requirements communicate full impact	
2	That DEDJTR: • evaluates the effectiveness of governance framework	
3	That DTF: • improves scrutiny applied to verifying benefits • assesses all viable funding options • agencies define stakeholder engagement strategies	

Our first recommendation is aimed at strengthening the unsolicited proposal guidelines and reporting requirements.
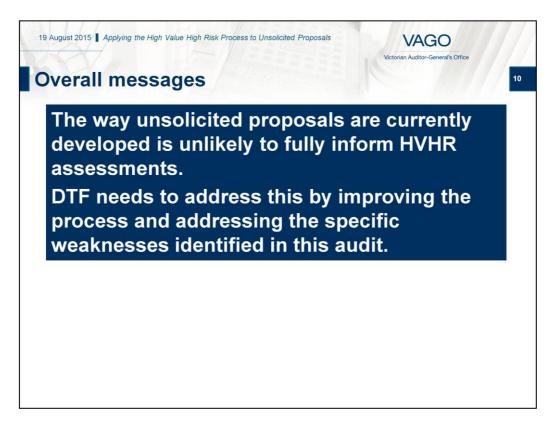
Our second recommendation is aimed at ensuring the effectiveness of the governance framework that DEDJTR has put in place to provide greater assurance about the rigour of the transport forecasting and economic appraisal.

The third recommendation is aimed at ensuring there is sufficient scrutiny of benefits for unsolicited proposals, that all viable funding options are assessed, and that agencies develop adequate stakeholder engagement strategies for proposals that proceed to full development.

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Key messages

DTF has not been consistent in applying the HVHR process to unsolicited proposals.

DTF needs to amend process and guidelines to address identified deficiencies in the information provided to government.

Improve quality assurance and scrutiny of benefits and modelling, better assessment of funding, provide greater transparency and improved stakeholder engagement.

This slide summarises the key messages from the audit.

Overall messages

The way unsolicited proposals are currently developed is unlikely to fully inform HVHR assessments.

DTF needs to address this by improving the process and addressing the specific weaknesses identified in this audit.

Overall DTF has acted swiftly to apply the HVHR process to unsolicited proposals.

However there is more work to do if the information provided to government is to fully and adequately inform its decisions about unsolicited proposals and achieve the kind of community engagement and transparency clearly flagged by government as central to its infrastructure policies**.**

This slide lists relevant audits.

Contact details

For further information on this presentation please contact:

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